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APPrO Draft Submission in EB-2009-0077
Proposed Amendments to the Distribution System Code
September 25, 2009

As a non-profit organization representing electricity generators in Ontario, the Association of Power Producers of Ontario (APPrO) appreciates this opportunity to comment on the Distribution System Code (DSC) amendments proposed by the Ontario Energy Board (OEB) with respect to distribution connection cost responsibility. APPrO commends the Board for taking the initiative to resolve the core questions in a thoughtful and well-organized fashion.

APPrO and in particular its renewable generator members looking to invest further in Ontario support the OEB assigning priority to the government policy initiatives regarding the facilitation of renewable generation under the Green Energy and Green Economy Act (GEGEA or GEA). APPrO's members have a strong interest in the costs and conditions under which future generation facilities will connect to distribution systems in Ontario.

APPrO has been concerned about distribution connection cost responsibility for many years. The organization and its members have observed on a number of occasions that the approach to cost responsibility can be fundamentally determinative for generators, in many cases making the difference between a new generation investment being viable or not.

1. The Proposed DSC Amendments

In general APPrO is satisfied that the Board has proposed a realistic set of rules for distribution cost responsibility that will allow for new development and be acceptable to most generators. However some concerns remain that, if addressed, could produce more economic and lower cost results overall.

As mentioned in its previous submissions, APPrO strongly supports the introduction of a sharing mechanism but continues to believe that the principle can be made more consistent with provincial policy objectives by treating expansions to the distribution system to connect renewable energy generation as network assets. The introduction of an expansion cost cap moves partially in this direction by treating expenditures up to and including the cap as investments in network assets to be recovered from ratepayers who will benefit from the expansions and the renewable energy connections both locally and across the province. APPrO supports this approach and recognizes that the Board needs to balance the benefits and costs of the expansion investments with the expected impacts on the ratepayer.

APPrO also strongly supports the Board's commitment to ensure that incentives are in place to encourage efficient location decisions by generators, particularly if network treatment is being applied. In fact APPrO believes further work to ensure that such signals are in place would be appropriate. The cost cap as proposed however will not always be effective at conveying location signals to new generators. For the reasons described in section 3 below, APPrO recommends that the Board reconsider allowing excesses in the expansion cap to be applied to upstream costs.

2. The basis for province-wide pooling of costs

APPrO is of the view that the type of distribution reinforcements under consideration are required by the GEGEA and generally will benefit all consumers in the province since, in addition to producing local distribution system benefits, the new infrastructure investments facilitate the provision of benefits to the energy market, the environment and the local economy, similar to the benefits generally associated with distributed generation. As a result, as long as the costs of expansions and upgrades are justifiable on an economic basis or meet public policy objectives, province-wide pooling is appropriate.

The Board's notice describes how consumers across the Province will pay for the common benefits shared by all energy consumers in Ontario net of any local benefits, but it does not clarify how the distributors would recover the costs associated with local benefits. APPrO recommends that the Board clarify that the local ratepayers of the distributor would pay for the local benefits through the normal process of rate base recovery and that the funding adder can be used to record these costs until the next rebasing. This clarification should help to reduce the need for incremental financing and eliminate any uncertainty on cost responsibility.

3. Upstream costs

APPrO hesitates to comment on an issue that the Board has identified as closed, but believes that the basis on which the Board made its decision could have an alternative interpretation which the Board may want to consider in order to avoid the possibility of sub-optimal outcomes.

The examples shown in the attached appendix, demonstrate that where an excess exists in the expansion cap and a generator has a choice between two connection options, a generator seeking to reduce its connection costs would select the distribution connection option that has the lowest upstream cost, to the detriment of the ratepayer. Where there is no cap excess, generators would be indifferent between either of the options, just as they would be if the excess could be used to cover upstream costs.

These potential outcomes are contrary to the assumption made by the Board that excluding the upstream costs from the expansion cap would incent cost efficient connections. Since the exclusion of upstream costs could encourage inefficient location decisions and delayed renewable generation connections, APPrO recommends that the Board allow expansion cap excesses to be applied to upstream costs where the connecting generator can demonstrate that ratepayers will benefit.

4. Systematic recognition of the benefits of Distributed Generation

The Board has initiated a process designed to create options for systematic recognition of the benefits of distributed generation: "Distributed Generation: Rates and Connection (EB-2007-0630)." Although that process has not been concluded it is expected that it will inform many of the electric distributors in Ontario as they develop their plans for accommodating generation connections.

APPrO's primary remaining concern with the proposed changes to the Distribution System Code is that they leave open the possibility for a wide degree of variation and perhaps inconsistency in terms of how the benefits of distributed generation are assessed by distributors.

APPrO believes that distributors and generators alike would benefit from guidance by the Board in terms of how generation options are assessed. While a significant degree of attention is being provided to assessing costs to a distributor, much less is being devoted to a parallel means of assessing benefits.

Recognizing that such concerns are being considered in separate proceedings under the Board's direction, APPrO's primary recommendation in this regard is to encourage that full and transparent connections be drawn between distributor planning processes, cost responsibility rules, and the assessment of benefits associated with distributed generation.

5. Clarification on contestability and definitions

The Board's latest proposals significantly enhance and improve on the previous set of proposed changes to the Distribution System Code in a number of respects.

In particular, APPrO notes the clarification that "the Board expects that distributors will not classify as connection assets lines designed to reach from the existing main distribution system to the customer's location."

In addition the Board has confirmed that “the contestability and alternative bid provisions of the DSC apply in circumstances where the cost of an expansion exceeds the renewable energy expansion cost cap, such that the renewable generator is making a capital contribution towards the cost of the expansion.”

These two confirmations, along with reduced ambiguity about the definition of a connection asset and what will qualify as enabling improvements, significantly improve the overall proposition in APPrO’s view.

6. The level of the cost cap and contestable work

APPrO appreciates the need for the Board to proceed expeditiously and supports the use of the proposed cap as a reasonable interim arrangement. APPrO agrees with the Board’s conclusion that the cap may not be appropriate and accordingly that a new methodology may need to be considered. As new connection cost data becomes available, the Board will be able to examine the actual costs and determine if the $90,000/MW cap is appropriate compared to the average costs including any upstream expenditures.

APPrO appreciates the Board recognizing that the level of the cap may need to be revisited and wonders if in the interim the threshold for contestable work should be relaxed in order to allow an applicant to request a competing bid when the overall cost of the expansion is within 10% of the $90,000/MW cap. Such a provision would be particularly relevant in light of concerns raised by CanWEA and others about the potential for escalation from the initial estimated cost to the actual cost of an expansion – considering that estimated costs are used for determining contestability.

7. Transitional arrangements

Because the proposed transitional provisions state that the cost responsibility rules apply only to connection applications received after the date of the amendments coming into force, distributor-connected generators who have not yet achieved financial closing when the rules come into force should be allowed to withdraw their applications and re-apply under the new rules. To facilitate the rule change, any capacity allocation assigned to a generator and any active deposits should not be reassigned or forfeited if such a re-application is made.

The Board has proposed that rebates be paid to initial contributors to distribution expansions developed under the current rules. The notice clarifies how rebates will be calculated for subsequent connections of eligible facilities but do not describe how rebates would be collected from non-eligible generators. APPrO believes that all connecting customers should be treated the same with respect to cost responsibility for shared capacity and recommends that the Board clarify how rebates will be determined for future connections of non-eligible facilities.

The Board has also proposed that no rebates be payable to initial renewable generators who connect under the new rules as they will have benefited from the expansion costs cap. APPrO recommends that the Board reconsider its proposal and allow rebates where the initial connecting generator(s) paid a contribution above the expansion cost cap and the subsequent connecting generator(s) utilized excess capacity on the expansion funded by the initial generators.

Without this provision, generators may delay their connections and free ride on the expansions paid by the initial contributors. The optimal and most equitable way to proceed would have been for the generators to connect together in which case the expansion cap would have been aggregated and may well have eliminated any contribution requirement. But there may be circumstances where this ideal aggregation is not possible of where there still would be a significant contribution requirement and for whatever reason some generation connections are delayed. Under those conditions, APPrO does not believe that the initial contributors should be penalized for connecting first.

8. Deferral of Cost Recovery on Enhancements

APPrO recognizes that some of the smaller LDCs may find it difficult to fund the required connections to their distribution systems, but does not believe this justifies deferring the date that the new rules come into force to align with the utility's next rebasing application. APPrO understands that only the costs associated with enhancements as defined in the new rules will be deferred, so that distributors who have not rebased will still need to finance expansions and renewable enabling improvements. If this is not the case, the concerns raised below regarding deferral of the new rules would be even more significant.

Since most renewable projects are "location bound", a project cannot be moved at will to another connection point so there is a good chance that a particular project will be deferred until the new rules are in place contrary to the government's intention to connect renewable energy generation expeditiously.

Rebasing applications can be three years away and generator wishing to connect to utilities that have not rebased under the new DSC will have to pay the enhancement costs. This will prevent projects from proceeding expeditiously or increase a generator's costs unfairly as a result of timing and location factors beyond the control of the generator.

Rather than treating generators differently based on the rate status of individual utilities, distributors that require funding to finance the necessary enhancement should be directed to apply for a funding adder or should be provided with an enhanced payment from the provincial contribution. If no changes are made to the existing rule, generators should be allowed to apply for rebates from the provincial contributions when the utility rebases.

9. Differences between transmission and distribution rules

APPrO notes that there are a number of differences between the cost responsibility rules for transmission and distribution connections, but as long as these differences do not create disincentives to connect or inefficient outcomes there is no need for further review or additional changes at this time.

Once a province-wide sharing mechanism is established and renewable energy connections proceed under the new DSC and TSC rules, the Board will be in a better position to determine if transmission connection cost responsibility needs to be reviewed.

If the OPA or Board determine that cost efficient transmission connections are being deferred, APPrO would be willing to work with other parties to assist the OPA and Board with an assessment of the results to ensure that generation incentives are appropriately aligned with government policy.

As is normal for broad-based organizations like ours, APPrO provides these comments as an indication of the general view of the organization, while acknowledging that individual members of APPrO may well hold differing positions on specific points. Having acknowledged that possibility, however, APPrO would also like to point out that it works very closely with its members and other industry associations to ensure that its recommendations represent the common interests of existing and potential generators in the province.

10. Conclusion

APPrO recommends that the Board proceed with the amendments based on the recommendations and comments made herein.

All of which is respectfully submitted by

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and

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Appendix

Connection Options				
	Generator Pays	Expansion Cost	Ratepayer Pays	Connecting Generator's Preferred Option
Option 1 Distribution Costs Upstream Costs Total Option 2 Distribution Costs Upstream Costs Total	 0 0 0 10 0	 90 0 90 50 10 60	 90 0 50 0 90	Given a choice between Options 1 and 2, most generators would select Option 1 under the proposed expansion cap, since that would minimize connection costs even though Option 2 is more cost efficient overall. This outcome adversely impacts ratepayers
Option 3 Distribution Costs Upstream Costs Total Option 4 Distribution Costs Upstream Costs Total	 0 0 0 30 0	 50 0 50 20 30 50	 50 0 20 0 50	Given a choice between Options 3 and 4, most generators would select Option 3 under the proposed expansion cap, since that would eliminate all connection costs. Ratepayers would pay the same amount as they would if the cap was allowed to cover upstream costs.
Option 5 Distribution Costs Upstream Costs Total Option 6 Distribution Costs Upstream Costs Total	 40 0 10 30 40	 130 0 130 100 30 130	 90 0 90 0 90	Given a choice between Options 5 and 6, generators and ratepayers would be indifferent under the proposed expansion cap, since both options have the same cost. This result would not change if the cap was allowed to cover upstream costs.

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