EB-2009-0326

November 25, 2009

ALASI Inc. Responses to Interrogatories from The School Energy Coalition

General

1. ALASI Business Development Consulting currently represents a variety of clients and stakeholders simultaneously and is not directly intervening in these matters on behalf of any single client or stakeholder. ALASI is intervening indirectly on behalf of clients and stakeholders. ALASI's representations and intervention reflects the balanced interests of our past, current, and potential future clients – a holistic approach. Whereas ALASI's intervention in these matters does not reflect the direct interests of any single client or stakeholder, it may be reasonably inferred that we are therefore intervening on our own behalf.

2. All applicable official communications with the Board on this matter are represented by the public record on the OEB website.

Service Classification – Issue #1

3. The costs caused on the distribution system from an under 10 KW renewable generator that does not qualify for FIT differ from a similar generator that does qualify only in the addition of one FIT generation meter and the administration and settlement with the FIT contract customer. No technical or system related cost variances arise from participation or non-participation in the FIT Program by an embedded generator.

   Our approach and recommendations are based on the fact that outside of the administration of a government incentive program there are no technical or cost impact variances and therefore settlement and recovery of administration cost elements should be treated independently of embedded generation facilities and defined as the Incremental Cost of Participation. Additionally, our approach included the analysis of investment source and related beneficiary of those investments.

   In assessing the Incremental Cost of Participation our analysis included consideration of each of;
   - Embedded Generation Investment Choice
   - EG System Connection Choice
   - Program Participation Choice
   - Program Management and Settlement Choice/Options

   Embedded Generation Investment Choice
   We distinguish between the benefits from RE investments and the benefits of investments in RE.

The benefits of investments in RE accrue to the investor and may be summarized as R.O.I. The benefits from RE investments accrue to the community in general, taxpayers – including ratepayers, and include industry development, jobs, health and environmental benefits, and, decreased supply risk from increased supply locations and energy modes.

The FIT Program is designed to stimulate immediate increased investments in RE in order to increase the future availability of the benefits from RE investments. The ROI from RE projects is positive even in the absence of government incentives like FIT, but typically represent a longer payback period than is normally considered viable by businesses and market investors. The FIT Program is designed to shorten the payback period to within market-positive conditions, thereby increasing the investment activity today.

While the capital investment in RE projects provides a return to the investor, the cost of the FIT program provides a return to the taxpayers, and we therefore conclude and recommend that the cost of the FIT program be bourne by the taxpayers and ratepayers.

EG System Connection Choice

Embedded Generation Connection Choice is independent of program participation choice, though the latter may influence the former. Technical and cost impacts on the system vary only slightly from one connection configuration to another for micro-embedded generation facilities.

Our approach included consideration of existing EG facilities and program participation options that pre-dated FIT, including RESOP, Net Metering, and, EG Load Displacement.

Connection type has a minimal and effectively insignificant potential impact from micro EG systems. The natural flow of electricity ensures that the nearest available load to the connection point will consume the RE facility output first. A direct connection to the grid has the maximum potential impact of connection types, yet this represents only the extended flow of RE facility output from the generation meter to the connection point and back to the Associated Load Customer's load meter. These costs are captured and recovered in the current billing model.

Associated Load Customer Usage is the primary determinant of potential impact to distribution system costs.

We concluded that the technical and cost due diligence and the resulting cost recovery mechanisms for the existing and pre-FIT programs and connection options should suffice in establishing the basis for the non-incremental costs before consideration of the incremental costs of participation in FIT.

Program Participation Choice

To FIT or not to FIT; Embedded generation project owners may choose to participate in; Load Displacement, Net Metering, or, FIT. Additionally some existing project owners may choose to continue to participate in RESOP.

Our examination of the variance in metering, administration and settlement between these program participation choices provided the basis for the components to include in the Incremental Cost of Participation.

The only impact difference is generation meter and settlement – these are the incremental costs of FIT and we understand the government and the OPA's intention to be that these direct participation costs be recovered through a province-wide rate increase.

The distribution system impact of a generation facility is not affected by participation or non-participation in any government programs.

We further concluded that these incremental participation costs should be bourne by the entity to which the benefits accrue; namely, the taxpayers and ratepayers.

Program Management and Settlement Choice/Options
Program management and settlement including customer administration, metering, and settlement are operational expenses that are directly related to the administration of the program. While the OPA has chosen to assign these activities to the LDC's, they could in the alternative – and may yet, assign these responsibilities and costs to third parties or establish an administrative arm within the OEB for these activities.

We do not believe that any LDC should incur these costs without appropriate compensation. We do not believe that any EG FIT participant should incur these costs directly.

We believe that a province-wide rate increase that is directly related to recovery of these incremental program costs be established.

4. ALASI has concluded that a number of Generator Customer Classes should be defined and that while we do allow that another proceeding may be required to do so, we simultaneously hope that a formula can be developed under this proceeding that would then apply to the determinations of various classes under another proceeding if necessary.

We believe that the determination of generator classes must precede and be distinct from generator classes who participate in government incentive programs like FIT. This approach is intended to clearly demarcate the incremental costs associated with each generator class as well as the associated incremental costs of program participation by sub-classes within each generator class.

In making presentations to both MEI and the OPA, ALASI had recommended that FIT contract classes be developed to reflect the many business and financial models of various potential program participants such as zero-based-budget organisations. Our recommendation in regards to zero-based budget organisations was to separate the FIT Payment Term and Rate from the FIT Energy Delivery Term, such that these types of

organizations could invest in EG facilities, recover their investment inside of one year through a one year FIT Payment Term at a rate of approximately $12.00/kWh, while continuing to deliver the energy generated from their facility throughout the Energy Delivery Term of at least 20 years – we recommended 30 years.

This recommendation that we made reflects our underlying approach that is considerate of business models, and cause and effect. We believe that the simplistic distinction of FIT projects as determined by installed rated capacity does not satisfy any requirements for a sustainable model. Probable net Grid Impact from an EG system is a more rational determinant of associated costs and their underlying causes.

5. The EnWin approach likely reflects their due diligence and best interests on these matters in serving their stakeholders and customers given the existing conditions in this regulated industry and their operational capabilities.

A granular cost-driven model for each LDC creates and maintains inefficient monopolies within each LDCs region and can be the cause of inequality of access to the Government Program.

The current billing structure, and, cost recovery and settlement mechanisms do not provide LDCs with the opportunity to reasonably be supportive of either conservation or distributed generation without some form of mitigating or compensatory funding. In both cases, in the absence of offsetting funding from the government, the impact of both results in decreased commodity sales by an LDC. Given that the settlement and billing mechanisms of LDCs include the allocation of long term costs and the recovery thereof across a variety of billing items as a function of commodity sales (usage), any unforeseen decrease in commodity demand from either conservation or distributed generation results in decreased cost recovery for an LDC and is exacerbated by the variable cost components.

While LDCs like EnWin have the responsibility to develop models and recommendations that allow them to recover their allocated costs that may otherwise not be recovered due to distributed generation facilities or any other cause, we view it as irresponsible to assign the remedy of the “settlement mechanism problem” to renewable energy generation facilities. LDCs could face a similar problem of reduced commodity demand from behavioural change, bankruptcy, or, fuel switching. ALASI believes that LDCs should apply the same remedy to the decreased cost recovery from distributed renewable generation as they would to other potential causes of decreased demand.

A critical distinction must be made between LDC costs that are new and to be incurred as the direct result of distributed generation facilities and what might be referred to as costs but are in fact decreased cost recovery opportunities. In addition, the direct cost of distributed generation facilities must be distinguished from the direct cost of FIT contracted DG facilities.

A complete analysis of Public Policy would be required to satisfactorily address these

issues and provide sufficient explanation of the basis for ALASI's recommendations, which we will not undertake here beyond that which may be inferred.

Unfortunately LDCs in Ontario, like EnWin, are constrained by a regulatory and cost recovery framework that is inappropriate to the future of energy generation, distribution, and consumption. The existing model is not designed to accommodate the integration of distributed generation.

Given the disparate administrative capabilities of LDC's, each would likely recommend a different cost recovery mechanism that would be reflective of their own operating and accounting methods, within the existing regulatory model. LDCs have little opportunity to make recommendations that simultaneously serve the interests of taxpayers, ratepayers, and their stakeholders. The large variance in connection fees and account charges under RESOP exemplifies the inequities that arise from the current operating models of various LDCs in effecting a fair RE program across Ontario.

The ALASI approach is in consideration of the existing limitations of our current regulatory framework and a future industry model and approach that supports variable entry points for generation facilities, especially from renewable energy sources, cost recovery mechanisms and ROIs.

We are considerate of the appropriate and reasonable demarcation of responsibility in these matters among the OPA, The OEB, LDCs, and customers.

We have examined the component elements of embedded generation, distributed generation, and government incentives or programs.

We hope to influence the OEB to adopt an approach to RE under the FIT program that will serve the future energy supply, delivery and settlement model rather than one that serves the old model of centralized supply and related cost recovery mechanisms.

We believe that the use of granular costs by each LDC in establishing connection fees and account charges for Micro distributed generators, be they FIT Contracted or otherwise, creates an inequitable state in the Province, where based on geography some taxpayers/ratepayers may be required to pay more than others. Additionally, granular cost variances may reflect more than simple differences in the cost of doing business in different regions, but could include large variances that arise as the result of less than optimal prior investment decisions by one LDC as compared to others.

We believe that the same cost should be applied to all micro EG customers. We believe that the costs should be based on the incremental cost of participating in FIT. We believe that these incremental costs should be recovered from all customers though a Renewable Energy Recovery Fee.

Cost Elements to be Covered – Issue #2

6. ALASI has requested clarification on these costs from EDA. The fact of the great variances in these costs between each of the members of the EDA renders them vague catchalls that cannot be reasonably examined in detail.

   Decreased commodity sales to load customers arising from EG facilities cannot be reasonably assigned as the cause of unrecovered revenue by an LDC and or as a justification for EG Customer Charges. Applying this rationale is akin to establishing an energy conservation penalty against load customers by LDCs, where a reduction in usage by a load customer is met with a Conservation Fine against that load customer, and while this may serve the past it fails to support the future.

   In ALASI's examination of costs, causation and appropriate cost recovery mechanisms we determined that most of the costs that may be incurred are recovered by the subsequent sale of energy back to the associated load customer or to another nearby load customer.

   While we accept that there is an incremental participation cost related to FIT, this does not provide a rationale for recovery of these costs directly from the generator, and we recommend that these costs be recovered from all consumers of electricity in Ontario.

7. ALASI believes that the incremental costs associated with Participation in FIT should be recovered from all Ontario electricity customers. ALASI believes that if any additional non-incremental costs of participating in FIT exist, they should be recovered through existing settlement mechanisms or from all taxpayers through the OPA.

   Non-FIT generators and related costs have already been accounted for by the OEB and other prior rate mechanism adjustments.

Rate Design – Issues #3 and #4

8. Any charge to a potential EG facility can have a significant impact on the initial investment decision. Under the current FIT rules that require the microFIT contractee to be the same person or entity as the Associated Load customer, little opportunity is available for site selection.

   Customer account charges represent more than additional operating expense that may cause individuals to choose not to invest in the first instance. These charges increase the investment risk. As more customers invest in EG systems, LDC's will recover less of

their costs through the existing billing mix and will therefore shift their billing away from variable charge components to fixed charge components and especially to increased customer account charges.

In some locations in Ontario under RESOP LDC customer charges meant that the smallest EG systems would pay more in customer charges than they would ever receive under RESOP.

We recommend removing this ROI and risk disincentive to investment completely for micro generators.

9. Unfortunately there is no such entity as a typical LDC in Ontario.

Some LDCs in Ontario could add a new charge item in a matter of days and little cost, while others would require entirely new customer account management systems.

While we believe that a privatized, decentralized, and competitive energy sector is in the interests of Ontarians, we also believe that much of the administrative, asset sourcing and management, and, customer account management and billing should be centralized for all ratepayers and operated by the OEB.

We believe that it is unacceptable to allow different costs for meters and different customer account charges based on geographic location and LDC. A government program must be equally accessible to all Ontarians.

The current context of the ongoing development of a functional Feed-In Tariff program is what we at ALASI refer to as “Catch-22 Due Diligence”.

The OPA is simultaneously developing and imposing rules and guidelines for the implementation and management of the FIT Program while relying heavily on the OEB and other industry experts for intelligence on these decisions. We believe that the delineation of responsibility should be executed based on existing knowledge and capability within each agency.

We believe that the imposition on LDCs by the OPA for metering and settlement activities relating to FIT reflects a rash decision made outside of the knowledge-base and capabilities of the OPA at that time. We further believe that they may reconsider this assignment of responsibility subject to the outcome of this and related matters.

We believe that the OEB is better suited to determine a fair, appropriate, and cost effective method for customer management. We are hoping to influence the OEB to take up ownership of those elements which more correctly fall within their domain and expertise.

We will not attempt to address the actual cost and timing of implementation of our recommendation. We do accept that prior investment decisions by some LDCs will

require higher re-investment and a great deal of time and that there may be a need to implement an interim model.

Implementation – Issue #5

10. We recommend no distributor charge for micro-generators and recommend that it be made retro-active in order to credit those in-service facilities that have already paid fees to their LDC, regardless of their program participation status.

    We believe that the investment cost and operating expense related to participation in MicroFIT contracts should be the same across Ontario for similar projects regardless of geography or related LDC.

    It is our recommendation and expectation that there will be no customer account charge for micro distributed generators regardless of their participation in FIT, RESOP, Net Metering, or, Load Displacement (no program).

    It is our recommendation and expectation that for any single FIT customer class the connection charges and customer account fees will be the same regardless of where the project and customer is located in Ontario and regardless of their LDC.

    It is our recommendation and expectation that there will be no direct connection fee for micro distributed generators regardless of their participation in FIT, RESOP, Net Metering, or, Load Displacement (no program).

We trust that the responses contained herein clearly explain our proposals, recommendations and intentions.

Thank you.