December 9, 2009

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
27th Floor
Toronto, ON M4P 1E4
Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2009-0326 Argument Submission

In Procedural Order No. 2, dated October 22, 2009, the Board invited proposals, interrogatories, submissions, and response submissions. *ENWIN* prepared and filed a proposal, prepared and filed responses to interrogatories in respect of that proposal, and herein presents its argument submission.

Evidence Submissions

ENWIN is concerned about the lack of quality and quantity of evidence in this proceeding. *ENWIN* notes that this proceeding was initiated to create a rate class tapered around the Ontario Power Authority (OPA) microFIT program and yet the OPA did not submit evidence, interrogatories and may not make a final submission. Questions were raised throughout this proceeding, as they have been for most of 2009, regarding take-up rates, the costs of generation facilities and the impacts of distributed renewable generation on distributors and the power supply in Ontario and it would have been extremely helpful to have examined submissions of the OPA in this regard. *ENWIN* suggests that the Board may properly draw an adverse inference from the lack of OPA participation. If in fact the monthly service charge established in this proceeding was expected to have a significant adverse impact on the overall success of microFIT, then it is reasonable to expect that the provincial agency responsible for that program's success would have played an active if not leading role in EB-2009-0326.

There was also limited evidence advanced by generators and others with interests in the advancement of distributed renewable generation. The submissions of CanSIA and ALASI advocated the ideals and values associated with renewable generation, but those are not at issue. Neither is in the purpose of EB-2009-0326 to "facilitate rapid implementation" or to make these projects "as simple and inexpensive as possible", as claimed by Fair Solar Ontario on December 4, 2009. This proceeding is in place to establish rates for the purpose of cost recovery – a core principle that exists irrespective of the microFIT program's design or the ideals and values driving renewable generation.

Connection costs and monthly service charges are simply one set of costs of entering into the distributed renewable generation business. It is unconvincing for generators to argue against bearing these costs because they are, perhaps, among the last costs to be determined and that adding these costs to previously determined costs (e.g. PV panels, wind turbines, installation, meters) make may some projects uneconomical given the OPA's previously established tariff. To the extent that these costs were not sufficiently incorporated into the calculations of the OPA or commercial interests, it is for those parties to revisit in their own programs and business cases.

ENWIN finds it quite reasonable that different distribution companies expressed different expectations in this proceeding. The commonalities in positions are certainly more prevalent than differences. Particularly, *ENWIN* submits that distributors have continued to press for full cost recovery and a fair opportunity to achieve a reasonable rate of return in order to build, operate, maintain, and administer their systems. Where distributors diverge is largely in their understandings of what to expect from new technologies, to be deployed in unprecedented volumes, by heterogeneous customers, at unknown take-up rates, in random locations, amidst economic turmoil, in a rapidly evolving regulatory environment.

An excellent example of this confusion is demonstrated by comparing the proposals of *ENWIN* and Hydro One in respect of the monthly service charge. *ENWIN* perceives the code amendments enacted through EB-2009-0303 to not only permit but require account separation between generation and load customers. *ENWIN* also perceives that the purpose of this proceeding is to allocate costs to generation customers. As a result of these two perceptions, *ENWIN* has proposed to treat generation customers the same as load customers by charging a monthly service charge that has full regard for the comprehensive services extended to customers by equating it to the total distribution charge for an existing load rate class (e.g. Residential, GS<50kW).

By contrast, Hydro One perceives that there will be "main accounts" (presumably the location-affiliated load account) that will be deemed to cover the generator's share of the costs for billing, inquiries, maintenance of feeders, etc. It appears to be a two-for-one deal, of sorts. The only service provided to the generator for which the load customer would not be the proxy would be the meter costs.

These different perceptions come from a place of uncertain technology, volume, customer, take-up, economic, and regulatory issues noted above. This proceeding will clear up some uncertainty and both experience and future proceedings will gradually bring perceptions into closer alignment.

Despite the limitations and divergence of the proposals, the Board can and should set a framework for final rates through EB-2009-0326. While these rates will certainly evolve over time, they should nonetheless be final rates and not interim rates. While the quality of evidence in this proceeding is not of the same calibre as the evidence available for establishing other rates, a final rate is necessary in order to provide

revenue certainty and cash flow protection. To not set a rate would provide benefit to the OPA and generators – the very parties that did not provide evidence on how the Board's interim rate or the rates advanced by participants in this proceeding would violate cost recovery principles – but leave distributors in a detrimental revenue and cash position and thereby risk the quality of service to all customers.

Service Classifications

ENWIN continues to advocate for the creation of additional rate classes to address cost recovery issues for generators that are not enrolled in microFIT. Until that time, *ENWIN* expects to evaluate the customers' load characteristics and classify accordingly.

Cost Elements to be Recovered

ENWIN reiterates by reference its submissions in this regard earlier in this proceeding.

Some submissions of other parties in this proceeding have suggested that microFIT generators will have negligible impact on distribution system operations and maintenance. This line of thinking is reinforced by certain other rules related to generation that set criteria based on threshold kW capacity. The problem with this line of thinking is that it neglects the cumulative impact of microFIT projects. A block of businesses with 10kW generators may be responsible for just as much energy and put just as much strain on the distribution system as a single 250kW project. Further, houses and small businesses put limited individual demands on the system, but they are still allocated costs to ensure that full cost recovery occurs. In fact, load customers are more predictable and stable participants on the grid as compared to weather-sensitive generators. Moreover, the addition of houses and small businesses does not change the dynamics and functions of the grid, but distributed generators do have that complicating effect. In short, 10kW generation is at least as significant a cost driver on the grid as a 10kW load and therefore cost recovery should have regard for generation impact just as it does for load impact.

ENWIN notes that CanSIA raised the issue of supposed benefits of distributed generation to distribution systems in its November 6, 2009 proposal, despite the Board's direction that the matter was specifically out of scope for this proceeding. As it is out of scope, *ENWIN* reserves comment at this time.

It is worth restating that the driver for the incremental costs and complexities in the distribution system is not distributor interests or load interests. The primary driver is electricity commodity transportation for commercial interests pursuing private objectives. There is nothing wrong with that. It simply must be remembered by participants that promoting these opportunities in fulfilment of one statutory objective

does not eliminate the need for the Board to meet its other statutory objectives. If anything, those other statutory objectives become even more important. As new information continues to come out regarding smart grids that accommodate distributed renewable generation, the pressures on reliability and quality of power will mount, as will the challenges of delivering economic efficiencies and cost effectiveness. To meet these challenges and to more broadly sustain the financial viability of the electricity industry, those driving these escalating pressures need to bear cost responsibility for the true costs of their impact as they enter into and operate within the industry.

The issue of "true costs" will be a challenging issue when the industry takes a closer look at cost allocation during the next stage of evaluating the cost responsibilities of these customers. Expectations should be managed regarding the data that will become available over the next several years. Some costs, particularly the initial upfront capital costs and contributions should be among the clearest costs to isolate. However, thereafter, the distinctions between "facilitating renewable generation" costs and the other OM&A costs of distributors will be difficult if not impossible to disentangle. When a truck rolls to fix a downed line, will the work order assign costs on a percentage basis among load and generation customers served by that line? When a pole transformer that would have otherwise lasted 10 years only lasts 8 years due to the two way flows of electricity, will there be accounting separation for the marginal change? When customers call to complain about wind turbines or ask about both load and generation bills, will the time associated with those calls be apportioned? The deferral accounts for "facilitating renewable generation" will capture some of the clearly identifiable costs of serving these customers, but by no means will they be accurate reflections of the true cost of serving generators.

And that makes sense. The evolution is not towards distinct grids for specific types of customers, but to integrate generators into the distribution system. While it would be a theoretical nicety and an administrative delight to be able to precisely identify cost causality as this new industry develops, it would not be cost effective. Cost allocation studies will out of necessity make reasonable assumptions and probably draw on the latest research – the types of evidence hoped for in this proceeding, but which have yet to come to fruition. This work will move the quality of understanding and data forward, but it will not likely match the revenues from the EB-2009-0326 rate or the costs in the deferral accounts – at least not to the degree industry participants have come to expect in other contexts. This is a natural limitation of being at the forefront of a significant evolution in distribution systems.

Rate Design

ENWIN is pleased that there appears to be a broad consensus in support of distributor-specific fixed rates as opposed to a provincial rate or volumetric rates.

Implementation

In the proposal, *ENWIN* advocated for rates effective May 1, 2010. While the spirit of the proposal remains the same, *ENWIN* proposes that the rate be effective with each distributor's next tariff of rates, which for the most part will likely be May 1, 2010.

Conclusion

ENWIN's participation in this proceeding was for the purpose of raising issues that will have an impact on its ability to sustain the excellent performance and efficiencies of its distribution system and other distribution systems in Ontario. The immediacy and pace of evolution facing these systems escalates the need to get funds to distributors in a timely fashion so that the incremental work that needs to be done can be done.

It is also imperative in this time of change to flexibly consider options that take into account the interests of all industry stakeholders, but that remain true to core principles. *ENWIN* suggests that the Board's new objective, "To promote the use and generation of electricity from renewable energy sources in a manner consistent with the policies of the Government of Ontario, including the timely expansion or reinforcement of transmission systems and distribution systems to accommodate the connection of renewable energy generation facilities," is not a matter of promoting the interests of generators. For distributed renewable generation to exist and flourish, it needs to recognize the financial and other pressures it puts on distributors and load customers among others. It needs to bear full cost responsibility and be progressively brought into the established framework for utilizing the assets and services that make possible the "distributed" in distributed generation. While it was Government action that made renewable generation possible, it is principled Board direction and ongoing stakeholder engagement that will make it work.

Yours very truly,

***ENWIN* Utilities Ltd.**

[paper copy signed by AJS]

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