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Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, Ontario, M4P 1E4

Dear Ms. Walli:

Re: EB-2009-0349 – Comments of the London Property Management Association

On December 14, 2009, the Ontario Energy Board (“Board”) released a Board Staff Discussion Paper on Proposed Framework for Determining the Direct Benefits Accruing to Customers of a Distributor under Ontario Regulation 330/09 and invited written comments on it. These are the comments of the London Property Management Association (“LPMA”).

Comments have been arranged based on the Compilation of Issues for Comment provided in Appendix 1 of the Board Staff Discussion paper.

1) In addition to the two types of direct benefits identified above (i.e., reduced transmission and WMSC charges, improved capability of the distribution system), should the Board take into account any other direct benefits that accrue to customers of the distributor making the investment?

The Staff Paper appears to include only the network transmission charge in the calculation of direct benefits. It is not clear to LPMA why there is no mention of the line connection and transformation connection charges in the calculation of direct benefits. It would be expected that similar to the reduced network transmission charges there would be reductions in the line connection and transformation connection charges as well.

While the billing demand for line and transformation connection services is defined differently than that for network transmission charges there does appear to be potential for reductions in these costs. In particular, the billing determinant does not include embedded generation with installed capacity of less than 2MW for renewable generation (Ontario Uniform Transmission Rate Schedule - EB-2008-0272).

LPMA notes that the Staff paper does not discuss the potential impact on benefits associated with the reduction in the billing determinants for the transmission and WMSC charges. The costs to be recovered through these charges are not likely to decrease in proportion to the reduction in the billing determinants. This will result in an increase in the per unit charge that will be needed to recover the costs. It is not clear if the calculation of the direct benefits associated with the reduced transmission and WMSC charges are to be estimated based on current rates or the resulting rates that will be needed to recover the associated costs. It would also appear to the LPMA that the calculation of these benefits would need to be done each year based on the new rates or the expected new rates. In other words, the direct benefits may increase from year to year not because of any change related to billing units, but changes that reflect higher rates.

2) Are there any circumstances under which a distributor should be permitted to deviate from the proposed ex-post approach and use an ex-ante (i.e., forwarding looking forecast) approach?

LPMA submits that the ex-post approach is preferable to the ex-ante approach in most circumstances. In particular it would be doubtful that smaller distributors would be able to effectively forecast the level of detail required in order to be able to use an ex-ante approach.

There are likely to be cases where some of the larger distributors could provide reasonable forecasts needed to utilize the ex-ante approach. However, as noted in the Board Staff comments, the costs associated with this are likely to be substantial. LPMA does not believe that the use of the ex-ante approach is appropriate just because a distributor may be able to produce the needed forecast detail. However, if an accurate forecast can be done cost effectively, then a distributor should be allowed to bring forward

such a forecast for review. This may be the case for a distributor like Hydro One that will have multiple generators in their territory, many of which are likely to have similar profiles. The economies of scale that may be provided to Hydro One could result in a cost effective forecast methodology. Similarly, where such scale economies do not exist, it may be cost prohibitive to do the forward looking forecast.

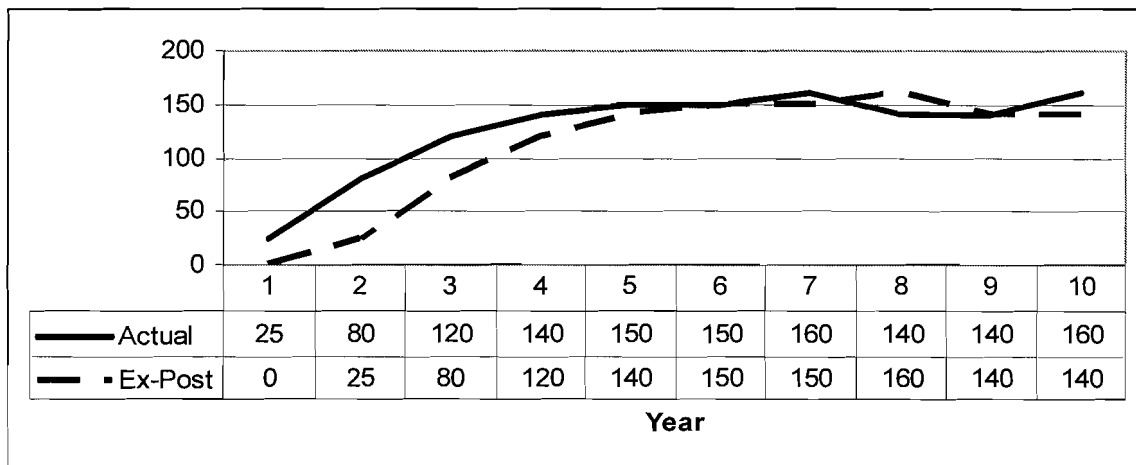
LPMA notes that under the ex-post approach, the actual renewable energy production from the previous year would be used. LPMA assumes this does not mean the previous calendar year or any 12 month period that is directly connected to the 12 month period for which the benefits are to be calculated. The information for the immediately preceding 12 month period would not be available in time to calculate the annual benefits for the immediately following 12 month period. LPMA assumes that the reference to the previous year actually refers to a 12 month period ending at least several months before the benefits for the forecast year are calculated. For example, if the Board intends to change the rates effective May 1 of each year, then a 12 month period ending in January or February would be used as the previous year actual production. This would provide the Board with time to calculate the direct benefits and the resulting amount of rate protection for each utility as well as the level of the rate needed for the provincial recovery mechanism.

LPMA submits that there are circumstances where a modified ex-post approach would be appropriate. For example, if a generator comes online late in the year (or 12 month period), it would not seem reasonable or appropriate to continue to use the generation from that year (or 12 month period) as the proxy for the future year. The past year (or 12 month period) generation figures should be adjusted to reflect the forecast that the new generator is expected to be on for the entire year. LPMA notes that this adjustment to the previous year should be relatively easy for the WHSC as this would be a straightforward addition based on kWh. With respect to the network transmission charges, any adjustment made may be more problematic, but again any estimate made for the following year is likely to be more accurate than no adjustment at all.

Adjustments may also be warranted when the distributor is aware of changes in generation due to scheduled maintenance or other shutdowns if these events do not occur on a regular annual basis. If they do occur on an annual basis, then no adjustment would be needed to the previous year figures.

Finally, LPMA suggests that adjustments to the ex-post approach may be warranted when there is a reasonable expectation of the addition of a large amount of qualifying generation relative to the amount from the ex-post estimate.

LPMA agrees with the Board Staff comment that the ex-post approach achieves the same outcome as a variance account in that over the long term any understatement of the benefit in one year would be corrected in the following year. However, this would only hold true in a relatively steady state environment. During a period of growth in renewable energy generation any understatement of the benefit in one year will not be corrected in the following year, or in any future years. Any such benefit would be lost, as illustrated in the following graph.



As illustrated above, the ex-post forecast used is simply the figure from the previous year. In the early years, as the quantity of generation grows, the ex-post approach continually falls short of the actual amount in place (as illustrated in years 1 through 5) and this shortfall is never made up. Only when the growth stops and fluctuations from one year to

another that reflect weather conditions, unplanned shutdowns, etc., (as illustrated in years 6 through 10) does the difference tend to balance out over a period of time.

LPMA believes that an adjustment as described above to the ex-post approach in limited circumstances would narrow the gap between the actual amount of generation and the ex-post estimate in times of growth in the amount of generation coming online.

3) Are there any potential refinements to the proposed Guiding Principles discussed above?

LPMA supports the first three proposed guiding principles as written. LPMA also supports the sixth proposed guiding principle.

The fourth guiding principle deals with the replacement of existing distribution assets. LPMA believes this guiding principle as written is too broad. Customers of the distributor making the investment may (not will) realize a direct benefit of some magnitude. Furthermore, the direct benefits to be received may not occur for several years. Distribution assets have long lives. Replacing a 10 year old distribution line that has an estimated remaining service life of 15 years (based on a total service life of 25 years) will not provide benefits to customers for 10 years. In the meantime, the replacement of the 10 year old line is likely to increase costs to customers as a result of the remaining net book value associated with the line when it was replaced and the higher rate base value associated with the new asset relative the replaced asset.

With respect to the fifth guiding principle related to the improved service quality for the load customers of the distributor making the investment, LPMA submits that this should be expanded to recognize that service quality improvements may also accrue to the customers of an embedded distributor served by the distributor making the investment. LPMA believes that if this amount can be estimated, it should be recovered directly from the embedded distributor whose customers are affected, rather than through the provincial recovery mechanism.

4) Should any additional Guiding Principles be considered by the Board?

It is not clear to the LPMA how the Board will deal with any stranded costs associated with the assets that are replaced before the end of their useful life. It would be useful if there was a guiding principle that dealt with the treatment of stranded assets that result from the replacement needed to accommodate qualifying renewable generation.

Other than the above, LPMA does not have any other suggestions related to additional guiding principles.

5) Are there any potential refinements to the proposed criteria discussed above for the purpose of estimating the direct benefits?

The Board may want to establish guidelines for materiality thresholds with respect to the variance in the customer load growth forecast that was used to initially determine the level of direct benefits. The Board is aware of the significant impact the economy can have on the number of new customers (residential, general service, industrial) added to a distribution system in any given year. This impact is likely to be even more pronounced the smaller the area under review within the distributor's territory becomes.

LPMA agrees that the size of the generator to be connected to an asset is a key consideration in the assessment of the benefits. However, LPMA does not believe it is the only consideration, or the most important. The number of generators connecting to an asset may be as important, as could the type of generation. For example, a bio-gas facility may provide the same annual kWh's as a wind facility, but the peak production could be significantly lower for the bio-gas facility, resulting in lower eligible investments being required. In summary, the assessment of benefits is likely to be site specific and depend on the assets currently in place, the amount of generation to be added, the number of generators to be added and the type of generation to be added.

LPMA believes that there is a significant risk of double counting benefits associated with the criteria as listed by Board Staff. For example, an asset to be replaced under the Asset Condition criteria may be impacted by Customer Load Growth criteria. In other words,

an asset may need to be replaced not only because of its age, but because of resizing needs. Benefits are not necessarily additive. Some benefits related to one criteria may be partially embedded in the benefits associated with another criteria.

6) Are there any other criteria that the Board should potentially take into consideration or should certain criterion listed above not be taken into account? In proposing the addition and/or elimination of certain criteria, a solid business case should be made for the Board to consider the merits.

LPMA has not identified any additional criteria nor does it propose the elimination of any of the criteria proposed by Board Staff.

7) Is a ranking or weighting of the criteria above necessary? If so, please propose an appropriate ranking or weighting, from most to least applicable, and provide a supporting justification.

LPMA does not believe that a ranking of the criteria is necessary. Any ranking of importance would be speculative at this time. It may be that the ranking of the criteria will be different for different distributors based on local circumstances.

8) Are there any information limitations that may prevent certain distributors from providing an assessment of any criteria above?

There are likely to be information limitations for some distributors and information limitations for some parts of some distributors that may hinder, but not prevent distributors from providing an assessment of the criteria.

LPMA does not believe that the assessment of any the criteria listed will be based entirely on hard data. Judgment is likely to play a key role in the assessment of several of the criteria. As a result, the impact of any information limitations should be able to be mitigated.

9) In the absence of having the best available information possible (e.g., recently completed study), are there any factors above for which a distributor would not be able to provide a reasonable estimate?

LPMA expects the answer to this question will vary by distributor.

10) What information should all distributors already have on hand (e.g., for distribution planning) that would allow for a reasonable estimate that is specific to certain areas of a distributor's territory of: (1) load growth; and (2) customer density?

LPMA does not know what information is available, or should be available, for certain or specific areas of a distributor's territory, but expects that the information may vary significantly by distributor.

11) Where provincial ratepayers have provided rate protection and the asset is not ultimately used by the distributor as an eligible investment, Board staff proposed that the amount of rate protection should be reduced accordingly going forward to reflect the use of the investment for other purposes. In such cases, are there any circumstances under which the amount of rate protection provided by provincial ratepayers should not be reduced? If so, please explain.

LPMA does not agree with the Board Staff assumption that the amount of rate protection should be reduced accordingly going forward to reflect the use of the investment for other purposes. The absence of a generator using the eligible investment should have no impact on the use of the investment for other purposes. An extreme example of this would be an extension to a planned renewable generator that has no load customers forecast to be on the line. The amount of rate protection should not be reduced if the generator does not materialize and load forecast is realized (i.e. there are none). If, however, some load customers do materialize, then LPMA would agree that the direct benefits have increased and thereby should be reflected through a reduced level of rate protection.

It should also be noted that a change in use of the investment for other purposes can be more or less than that originally forecast and could depend on customer growth and/or load growth, both of which can be above or below that assumed in the calculation of the initial level of direct benefits.

12) Should the Board consider a certain standardized approach? If so, how should the approach be standardized?

Not at this time. When the Board has more information available to it from a broad spectrum of distributors, it should then review whether a certain standardized approach would be feasible. The Board needs to recognize that the difference between distributors will be magnified by the difference in and the mix of renewable energy generators in each distribution territory. The impact on the estimation of direct benefits could even be substantially different in two identical distributors for 2 identical generators simply because of differences in the location within each of the distributors of the generators.

Rather than considering a certain standardized approach, the Board may want to consider retaining the requirement for the more rigorous and detailed analysis as described in section 3.3.2.1, but relax the requirement to estimate the benefits every year to something more appropriate, such as every four years. This would be similar to the cost of service/incentive regulation cycles used to set rates.

13) Would a certain percentage of expansion investments and a certain percentage of REI investments (using a historical “baseline” specific to each distributor) provide a reasonable estimate on a go forward basis?

LPMA does not believe this approach would be feasible. As noted above there is likely to be a wide divergence associated with the direct benefits associated with renewable energy generators.

Different types of generators may result in different levels of benefits (e.g. wind vs. solar vs. biomass, etc.). These benefits may well be different within a distributor, based on location. The benefits may be different based on the distributor in which it is located.

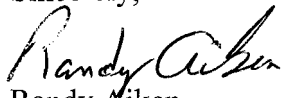
14) If the Board decided a standardized approach would be appropriate for certain distributors:

- (i) What timeframe would be suitable for implementation?**
- (ii) What would an appropriate threshold be to determine which distributors could proceed under a standardized approach and which distributors should be required to continue under the more rigorous assessment discussed in section 3.3.2.1?**

LPMA does not believe that a suitable timeframe can be determined at this time. An appropriate timeframe will depend on factors that are beyond the control of the Board or distributors. Essentially the Board should wait until such time as it has sufficient data available to determine if the use of a standardized approach would be appropriate.

Similarly, LPMA does not believe an appropriate threshold can be determined at this time. Differences between distributors for such things as customer density, load growth, rural vs. urban, degree of undergrounding, etc., would seem to suggest that standardized approaches may need to be different depending on all or some of these differences.

Sincerely,


Randy Aiken
Aiken & Associates