EDA
The Voice Of Ontario's Electricity Distributors

January 18, 2010

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

Via RESS and by courier

Dear Board Secretary:

Re: Board Staff Discussion Paper on Rate Protection and Determination of Direct Benefits under Ontario Regulation 330/09 - Board File No. EB-2009-0349

The Electricity Distributors Association (EDA) is the voice of Ontario's local distribution companies (LDCs). The EDA represents the interests of over 80 publicly and privately owned LDCs in Ontario.

The EDA has reviewed the Ontario Energy Board staff Discussion Paper on Rate Protection and Determination of Direct Benefits under Ontario Regulation 330/09, issued on December 14, 2009, and has consulted with its members on the proposals for consideration within the paper.

The discussion paper identifies two categories of direct benefits to local distributor customers from connecting eligible renewable generation, which are:

- reductions on network transmission and wholesale market service charges (WMSC), and
- portions of expansion and renewable enabling improvement investment costs that benefit local customers.

The discussion paper identifies and seeks comments on guiding principles and criteria to consider in estimating the direct benefits associated with the investments in expansions and renewable enabling improvements. These guiding principles are:

- The benefit is directly attributable to only the customers of the distributor making the investment (i.e., limited to distribution system investments) and the benefit is readily quantified in monetary terms.
- The level of detail and analysis provided by a distributor underlying the estimation of the direct benefits should be commensurate with the circumstances of the distributor.
- Portions of certain eligible investments may not ultimately be used by only qualifying renewable generation facilities to which the Board's new cost responsibility policies apply. Consistent with O. Reg. 330/09, to the extent the investment is used for other

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purposes (e.g., connect a load customer), that portion of the investment would not be recovered through the provincial recovery mechanism.

- Where any existing distribution asset is replaced to accommodate qualifying renewable generation, customers of the distributor making the investment will realize a direct benefit of some magnitude and therefore a certain portion of the costs should not be recovered through provincial recovery mechanism.
- To the extent certain eligible investments (e.g., Renewable Enabling Improvements) that accommodate qualifying renewable generation are expected to improve service quality for the load customers of the distributor making the investment, such service quality improvements will represent a direct benefit to only the customers of that distributor (i.e., not paid for under the provincial recovery mechanism).
- Distributors should not be required to estimate certain benefits (e.g., line losses) that may, in theory, sometimes be associated with distributed generation in a generic sense, but do not take into consideration the practical circumstances unique to Ontario under the Green Energy Act.

The discussion paper proposes that the benefits from reduced network transmission and WMSC charges should be determined on an ex-post basis, by determining the reduced charges from the previous year due to eligible renewable generation actual production.

To determine the portions of expansion and renewable enabling improvement costs that provide direct benefits, the discussion paper proposes that distributors consider customer load growth, customer density, aging asset condition, service quality improvements, the size of the renewable generation, and the portion of investments used by other non-eligible generation and thus paid through capital contributions. These benefits would be determined on a specific basis, considering the area where the generation will connect.

The discussion paper notes that the level of detail and analysis could recognize the circumstances of individual distributors and in the future there may be two different approaches, where a detailed approach would be used if the investments are significant and a simpler less-resource intensive standardized approach would be used if the investments were small. The paper proposes that until more information is obtained to develop a simpler standard approach, all distributors will initially be required to use the more detailed approach.

The discussion paper acknowledges that the rationale for a two-pronged approach noted above is that in some, but not all cases, the cost of achieving precision could outweigh the value of the precision achieved. If there is relatively little distribution revenue at issue, a relatively simple approximation may be justified. However, the Board staff suggest that a standardized approach is not possible at the outset because the Board does not yet have any historical information to provide the basis for a standardized approach at this time.

The EDA membership believes the paper raises a number of questions regarding the approach to be used for estimating the direct benefits and subsequently approving the quantified direct benefits.

Members expressed concerns in accepting criteria proposed in isolation without an understanding of how the benefits would be quantified and the degree of precision and level of detail expected in providing the estimated benefits. Members also sought more information on how the estimates would be approved.

Members also raised concerns on the issue of materiality. Members noted that the paper acknowledges that the effort to estimate the benefits may outweigh the direct benefits identified. But the paper suggests that despite this, a more simple approach would not be used at the outset because the simple approach proposed would be based on a standard approach which requires data to be collected. Members believed a simple approach should be available at the outset, but not based on a standard, but rather based on recognition of the materiality when the generation is relatively small. When dealing with a limited number of microFIT projects, it appears unreasonable to carry out an extensive analysis to determine the small amount of transmission network and WMSC charge savings caused by a few solar panels, in order to clarify that no direct benefits were made through the connections.

The EDA proposes that the present lack of experience should not be a reason to use an extensive detailed approach at this time. We believe a simple approach should be used at the outset and subsequently refined at a later date when more information is available and experience gained. This would allow for the development of more complex approaches to calculate the direct benefits, based on further research and studies on performance of generation.

Members have a concern regarding the cost of determining the direct benefits and approving the estimated benefits. Members asked questions on how the approval of the estimated direct benefits would fit in with the existing regulatory approval approaches, in order to avoid additional costs. Members asked whether benefits would be reviewed as part of the Distribution System Plans or would they be included in Cost of Service applications. Members noted that they presently use forecasts in their cost of service applications, and asked whether these forecasts would be the same used for establishing direct benefits, or whether distributors would have flexibility to use revised localized forecasts for the estimation of direct benefits. Would the forecast be on the same basis as distribution planning or would forecasts for direct benefits estimation be based on longer terms?

Members have a number of questions on the methodology for quantifying in monetary terms the direct benefits from connection investments and suggest that it would be useful to see a real world example calculation of the monetary benefits from an existing renewable generation project.

The staff discussion paper proposes in its questions that the amount of rate protection should be reduced when the investments are eventually used for other purposes than solely connecting generation. Members asked whether the opposite would also be considered when the investments forecast to be used by customer load growth eventually was not used due to actual load being less than forecast. In other words, would there be an after the fact increase in the rate protection, if it can be demonstrated later that there was an over attribution to local benefits, and how much after can these adjustments be made? Clearly there are issues with tracking the changes to rate protection caused by over or under forecasting benefits. Members believed this would complicate the process and should be reconsidered.

The discussion paper notes that upstream cost and benefits related to renewable generation connections will not be taken into account, noting that upstream upgrades to the system of the host distributor or of a transmitter are paid for by the connecting generator. Members asked to verify that distributor owned transformer stations which would not be charged to the generator, would be included in the assessment of rate protection.

With respect to the benefits from renewable enabling improvements, the paper notes that these investments may also enhance service quality for load customers. Members note these investments may also be used to maintain service quality so it may be difficult to establish when these investments provide benefits. One proposal is to determine whether these investments would have been planned by the distributor prior to the determination that it would be required for connecting renewable generation. As a result, part of the investments could still be pooled depending on how much sooner the investments were made compared to what was originally planned. Members also noted that connection of renewable generation may decrease service quality and distributors may have to spend additional funds in order to maintain service quality. In this instance no direct benefit would be applicable and all investment costs should be included in the assessment of rate protection.

With respect to the anticipated local benefits from reduced network transmission charges and WMSC charges, members expressed a number of concerns. Members noted these reduced wholesale charges are caused by the output of qualifying generation coincident with peak demand. They note that the effect is independent of the specific distribution investments used to connect the generation and that the reduced charges are a function of rate design rather than real savings to the transmission system. Eventually the network transmission rate would need to be revised to recover the revenue shortfall, reflecting that there are no real savings. The actual savings on WMSC costs is very difficult to determine but it would not be equal to the reduced WMSC charges. Reduced network charges are also caused by non-qualifying generation, resulting in inconsistent treatment. Reduced network charges could be caused by qualifying generation with no incremental distribution investments, but these benefits would be ignored. If these wholesale charge benefits warrant consideration, should they not be treated consistently? The EDA believes that the savings from reduced charges are not directly related to the benefits from distribution investments to connect generation, and as such should not be considered a direct benefit.

The EDA believes that the issues members have expressed identify a need for further dialogue and discussion on how to implement the proposed approach for estimating the direct benefits. The EDA members suggest that it would be preferable that meetings be held with distributors, stakeholders and OEB staff working together to address the practical issues for estimating direct benefits, including practical examples of how to determine the direct benefit under different scenarios.

The EDA looks forward to further dialogue on the issues regarding estimation of the direct benefits from connection of eligible renewable generation.

Yours truly,

"original signed"

Maurice Tucci
Policy Director, Distribution & Regulation