



March 10, 2010

**BY RESS AND BY COURIER**

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

Dear Ms. Walli:

**RE: CLD Further Written Comments in Response to Stakeholder Meeting on Rate Protection and the Determination of Direct Benefits under Ontario Regulation 330/09 (the “Regulation”)**

**Board File Number: EB-2009-0349**

This submission is filed on behalf of the Coalition of Large Distributors (“CLD”) subsequent to the Letter of the Board dated February 5<sup>th</sup>, 2010, which notified interested parties of the Stakeholders’ meeting on February 26, 2010 and, which invited further comments regarding *Rate Protection and the Determination of Direct Benefits under Ontario Regulation 330/09* (“Discussion Paper”). This document follows the CLD’s initial comments submitted to the Board on January 18, 2010.

The CLD is comprised of Enersource Hydro Mississauga Inc., Horizon Utilities Corporation, Hydro Ottawa Limited, PowerStream Inc., Toronto Hydro-Electric System Limited, and Veridian Connections. The CLD appreciates the opportunity to provide further written comments on this interesting and complex issue, and to elaborate on the comments that were presented on February 26, 2010 at the Stakeholder meeting.

## **The Concept Underlying Ontario Regulation 330/09 and its Implications**

The *Green Energy and Green Economy Act, 2009* (“GEA” or the “Act”) requires expenditures by LDCs to connect renewable generation, but recognizes that the expenditures may be disproportionately borne by the customers of certain LDCs where those LDCs connect a disproportionate amount of renewable generation compared to other provincial LDCs. Since the ‘benefits’ of eligible renewable generation connection flow to all provincial customers and not just to customers of the connecting LDC, the costs (i.e. distribution revenue requirement) of connecting the renewables should be borne by all provincial customers. Therefore, the concept is that the total distribution revenue requirement (“DRR”) of the connecting LDC may be decomposed into two components: the local distribution component (the direct benefits) and the provincial renewable connection component. These two components of the revenue requirement are to be collected from local customers and provincial customers, respectively. The purpose of the mechanism is specifically to provide relief to local ratepayers for the renewable connection component of the DRR, that portion which benefits the entire province. Quantities that are not included in the DRR to begin with should not be part of the calculation.

The Regulation states in part that the amount of *rate protection* to be provided to prescribed consumers in a distributor’s service area is equal to the eligible investment *costs* determined by the Board to be the responsibility of the distributor in accordance with the Distribution System Code, less the amount the Board determines to represent the direct benefits that accrue to prescribed customers as a result of all or part of the eligible investment made or planned to be made by the distributor. The Regulation should be understood to mean that the renewable connection component (“RCC”) is equal to the total revenue requirement (of a given project or portfolio of projects which at least in part, connect renewable generation) less the local distribution component.

Therefore:  $RCC = DRR - \text{direct benefits}$  or  
 $\text{Direct Benefits} = DRR - RCC$ .

This division of the total distribution revenue requirement into locally recovered and provincially recovered components is necessary because eligible investments are not restricted by definition only to costs incurred to connect renewable generation. According to the Regulation, “The prescribed criterion for falling within the definition of an “eligible investment” under subsection 79.1(5) of the Act is that costs associated with the investment are determined to be the responsibility of the distributor (*as distinct from the generator*) in accordance with the Board’s Distribution System Code.” At section 3.2.2 of the Discussion Paper, Board staff specifically

noted that eligible investments made in the distribution system may be directed to providing service to load customers as well as renewable generation.

The Discussion Paper stated on page 2 that: "...the DCCR amendments set out the framework for establishing the 'gross' eligible investment costs and this consultation process will establish the framework for determining the 'net' costs (i.e. direct benefits) to be recovered from customers of the individual distributor making the eligible investment. The difference between those 'gross' and 'net' costs represents the amount to be recovered from all Ontario electricity consumers. As a consequence of the determination of the direct benefits, the cost allocation between provincial ratepayers and the ratepayers of the individual distributor will be determined".

In summary, the purpose of the Regulation is to provide for the *division of costs incurred* (i.e. revenue requirement), not the attribution or monetization of the 'value of service provided' (e.g. reliability improvements), and for the recovery of the component of revenue requirements applicable to renewable generation connection from provincial customers rather than local customers only.

### **Policy Dimensions of Discussion Paper Proposals**

#### **Avoided Transmission and WMS Costs**

Deployment of renewable generation will displace transmission load and change relative burdens of transmission and wholesale market service ("WMS") cost recovery. Displacement does not mean avoidance, and sunk or otherwise fixed costs are not reduced. In addition, transmission and WMS costs are outside the envelope of the costs in question, which consist exclusively of distribution revenue requirement components. There is a policy issue about how transmission and WMS cost recovery should be adjusted, if at all, as a result of renewable generation connection, but it is not appropriate for consideration here as a factor by which distribution revenue requirements should be adjusted.

Nevertheless, if the Board determines that the issue of changes in revenue responsibility for transmission and WMS charges merits investigation, it may be efficient to consider that as a separate issue in this proceeding; the CLD has no objection to that approach.

## **Improved Distribution System Capability**

It appears that some of the Discussion Paper proposals are targeted to divide the ‘eligible investments’ DRR since the Discussion Paper recognizes that some eligible investments serve both load and renewable generation. It is reasonable to develop detailed methodologies to divide the costs. However, that should not include any attempt to quantify or monetize the ‘value’ of service quality or reliability enhancements, since those concepts, even if they could be quantified, are outside of the basis of ratemaking, which is strictly ‘costs prudently incurred’. Historically, the Board has conducted Cost of Service ratemaking, not Value of Service ratemaking.

A central policy question here is whether the cost division will be on a marginal or fully allocated basis. Assigning costs (and recovery) to connection of renewable generation on a marginal basis will tend to minimize provincial recovery and leave local ratepayers indifferent, since all costs would remain theirs, except the ‘but for’ renewable generation connection costs. Fully allocating the renewable generation connection costs produces a positive benefit for local ratepayers at the expense of provincial ratepayers. The CLD favours the marginal cost approach.

## **Relative Standard of Materiality**

It is reasonable to use an approach that provides for a higher level of detail and analysis in support of larger eligible investments, and a lesser level for smaller eligible investments. To recognize that in the case of some projects, the RCC may be small relative to the amount of time and effort required to calculate it, the Board should use a materiality test, or a threshold amount, to ensure the time and resources spent calculating the RCC are warranted, considering the project size. The concept of materiality is a fundamental aspect of most other OEB guidelines. In this case, the threshold may be a ‘minimum cost per customer’ that could qualify to be added to the provincial pool. A uniform level of rigour, detail and effort should apply for all distributors, *for a given size of investment*, to ensure that the Board and all distributors comply with the expectations of the Act and the Regulation in determining direct benefits.

A final consideration is whether the cost of determining the RCC should be added to the RCC for recovery from provincial ratepayers.

Thank you for the opportunity to provide further comment on the Discussion Paper and to participate in the Stakeholder Meeting. If you have any questions regarding the comments provided by the CLD, please do not hesitate to contact me.

Yours truly,

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