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By e-mail

December 5, 2011

Ontario Energy Board Staff
P.O. Box 2319
27th floor – 2300 Yonge Street
Toronto, ON M4P 1E4

Dear Sir/Madam

Renewed Regulatory Framework for Electricity

**Board File Nos.: EB-2010-0377, EB-2010-0378, EB-2010-0379, EB-2011-0043 and
EB-2011-0004**

Our File No.: 339583-000098

Further to our letter of December 2, 2011, we confirm that we expect to have a number of questions on Thursday and Friday of this week related to information contained in the Board Staff and supporting expert reports that were made available to interested parties a few weeks ago.

We also confirm that we will be circulating an electronic version of a Brief containing copies of documents referenced in Schedule "A" to our December 2, 2011 letter. We intend to include in that Brief two (2) chapters from the 2011 Annual Report of the Auditor General of Ontario released earlier today, being Chapter 3.02 entitled "*Electricity Sector – Regulatory Oversight*" and Chapter 3.03 entitled "*Electricity Sector – Renewable Energy Initiatives*". The information in this Brief provides context for many of the questions that we expect to be asking on Thursday and Friday of this week.

We are enclosing with this letter a few specific questions about the contents of the Power Advisory LLC Report. These questions have been framed at our request by Bruce Sharp of Aegent Energy Advisors and we will include them when we question the witnesses that are presented to explain the workings of the price forecast model that Power Advisory has developed.

We hope that advance notice of these questions will help the witnesses in their preparation.

Yours very truly

A handwritten signature in blue ink, appearing to read 'Peter Thompson', is written over a horizontal line.

Peter C.P. Thompson, Q.C.

PCT/slc
enclosure

c. All Interested Parties
Bruce Sharp (Aegent Energy Advisors)
Vince DeRose, Jack Hughes (BLG)
Paul Clipsham (CME)

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Distribution Network Investment Planning (EB-2010-0377)
Power Advisory model – Questions of Aegent Energy Advisors

1. The HOEP assumptions for 2012 – 2016 are, respectively, \$37.85/MWh, \$38.99, \$40.16, \$41.37 and \$42.62. Alternative, lower outlooks exist for 2012 – 2014. The OEB's most recent Regulated Price Plan Price Report projects a Nov11 – Oct12 price of \$31.83/MWh. Recent Shell Trading forward prices for 1 – 5 MW (i.e. on the high side) for 2012 – 2014 were, respectively, \$33.00/MWh, \$33.84 and \$38.62. **It appears the model starts with a 2012 price of \$37.85/MWh and escalates subsequent prices by 3%. Can the model developer confirm this and also indicate whether or not you plan to use different forecasts for HOEP?**
2. The model's 2012 outlook for the total commodity price (that we'll define as HOEP + GA) is \$37.85 (HOEP) + \$27.18 (GA) = \$65.03/MWh. This seems quite low. For example, the previously-mentioned OEB RPP Price Report projects for Nov11-Oct12 a total commodity price of \$31.83 + \$40.08 = \$71.91/MWh. **Recognizing that movements in HOEP and GA tend to offset one another (everything else being equal), can the model developer comment on the seemingly very low total commodity price?**
3. It appears the model makes no mention of the Class A/B GA cost allocation split that took effect January 1, 2011 and so we assume the model takes a single-class, uniform-rate approach to GA unit cost calculations. Modelling by Aegent Energy Advisors suggests that for the period of Jan11 – Oct11, the cost allocation change causes Class B costs to be 5.0% higher than they would have been if a single-class, uniform-rate methodology had been used. If the single-class, uniform-rate method is being used then the starting GA and changes to it are being underestimated by this amount. (Concerning the comment and question immediately above, such a difference would explain some of the low total commodity price.) **Can the model developer confirm which GA rate calculation methodology is being used and why?**
4. The model notes a 2012 Allocated Quantity of Energy Withdrawn (AQEW) value of 139.7 TWh. In determining the Class A/B cost split and calculating the Class B GA rates, the demand determinate used in the former and the energy quantity for the latter are actually AQEW plus the quantity of energy from distributor-embedded generation (an average of 250-300 MW or 2.2-2.6 TWh per year). **Is the model value actually AQEW plus embedded generation energy or just AQEW?**
5. The following comment applies to the apparent benefits arising from the avoidance of transmission network and line connection and wholesale market service charges (WMSC). For all three, the model seems to implicitly assume that no other utilities are simultaneously connecting embedded REG and generating similar apparent benefits for their customers. When embedded REG is connected, the charge determinants (demand and energy) will eventually (for transmission, in future years; for WMSC, effectively in real-time, on a monthly basis) decrease and, everything else being equal, the unit rates will rise by proportional amounts. This means that, everything else being equal, if i) every LDC simultaneously connected a quantity of REG proportional to say, the total energy consumed by each of the LDCs' sets of customers and b) transmission and WMSC rates were rebalanced instantly, no net benefits would be generated for any of the LDCs' customers. Even without the instant rate rebalancing, there would be short-term benefits but they would be cancelled out in future years by transmission and WMSC rate

increases. The results are i) in all cases, the ultimate benefits are overestimated, ii) customers of utilities connecting a below-average amount of REG will actually be worse off, and iii) only customers of utilities connecting an above-average amount of REG will be better off. **Does the model developer acknowledge these dynamics and, if so, are there related plans to amend the model?**

6. **Did the model developer consider quantifying the admittedly-small benefit of reduced transmission system losses (part of WMSC) avoided when embedded generation decreases transmission system flows?**