



APPrO

ASSOCIATION OF
POWER PRODUCERS
OF ONTARIO

August 14, 2006

Re: OEB file numbers EB-2006-0088 (Cost of Capital) and EB-2006-0089 (2nd Generation IRM)

Kirsten Walli
Board Secretary
Ontario Energy Board
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Dear Ms Walli,

APPrO is a non-profit organization representing electricity generators in Ontario, both those who are grid-connected and many who are embedded within host facilities. Our members produce power from facilities of many types including gas-fired, hydro-electric, nuclear and wind energy, and collectively represent significant amounts of capital in the provincial energy system. In addition, our members are involved in the development of new generation, and are concerned about the conditions under which any potential future generation facilities would operate.

APPrO was the primary instigator of the Distributed Generation Industry Task Force, which has been one of the most prominent advocates for distributed generation in Ontario in recent years.

Ontario's energy future is likely to rely increasingly on various forms of generation connected to or embedded within distribution systems. These supply options have many benefits, among them reduced reliance on new transmission capacity and the prospect of being more acceptable to local communities. The success of this sector however, will depend in part on the development of appropriate conditions for provision of the distribution services that are required by these types of generators.

While APPrO does not expect to become actively involved in the above proceedings, generators do have concerns about the structure of any Incentive Regulation Mechanism that may come into use in Ontario. This letter is intended to act as our first submission in this proceeding, and in particular as our response to the Staff Discussion Paper released on July 25, 2006.

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This proceeding is particularly important to APPrO members because a great number of new generation projects are expected to be built in the next few years, most of which will need to be connected to distribution systems. Distributors will be in a critical position to set the methods for implementing those connections and could in many cases even determine whether a generation project proceeds or is stopped. While the Distribution System Code governs a range of important issues in terms of how distributors deal with generators, it has been recognized during the 2003 Connection Directive process and in other contexts that the DSC is unable to provide all the incentives to distributors that would be desirable to encourage consideration of certain relevant factors in the economic and policy realms.

In general, we would urge distributors and the Board as they review the options for IRM to consider the services provided by distributors to generators as a key part of their public mandate, just as important to the balanced operation of the system as the services provided to load customers. Generators are distribution customers in several respects, often including but not limited to design and construction of interconnection facilities, maintenance of delivery point reliability, and provision of station power.

Distributors have some customers who are loads, some who are generators, and some who are both. There are important similarities between these different types of customers, as well as notable differences. As the number of distribution-connected generators increases in Ontario, it is likely that distributors and non-generation customers will adapt their expectations and procedures to recognize the differences between generators and non-generators as distribution customers. This kind of development is an appropriate and fully expected aspect of the natural evolution of the provincial electric system.

An Incentive Regulation Mechanism in our view, should accomplish the following objectives, in addition to those already identified:

1. Ensuring that distributors who follow proper procedures to connect generation or otherwise provide necessary services to generators are able to recover all their costs incurred for such activities.
2. Encouraging distributors to find the lowest total cost solutions for connection of generation to their systems. Distributors should be rewarded for finding ways to simplify procedures and for safely reducing costs related to generation connections.
3. Encouraging distributors to achieve predictability of the costs relating to generation connections (Defining and limiting the extent of cost variability)
4. Rewarding initiative: Distributors who provide particularly prompt and efficient services to generators should be rewarded for doing so, and those who fail on such measures should be appropriately penalized.

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In some areas, significant work would be necessary to develop appropriate measures. Other jurisdictions could serve as examples in many cases.

We believe that there is much to be gained in the Connection Assessment process by focusing on techniques designed to ensure that overall costs are scaled in proportion to the size of the interconnection application, without creating an expectation that larger scale projects must necessarily have higher costs.

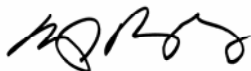
The amount of attention and resources which Ontario distributors dedicate to their load customers compared to that which they devote to generation customers is a complex managerial decision dependent on each utility's specific circumstances. The IRM chosen can provide useful incentives and assist with the allocation of resources, but it can not be expected to replace managerial judgment in making determinations on issues of overall balance. Therefore, any incentives which are instituted should be carefully designed to ensure that they do not have the unintended effect of shifting overall distributor priorities between generation customers and load customers, in either direction.

APPrO has not had an opportunity to review this material with all its members. Therefore, this letter is submitted without prejudice to the position of APPrO or any of its members in any future proceeding.

For the purpose of future correspondence with APPrO on this matter, we ask that you send materials to the following contact person:

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Thank you for your attention to this matter,



Jake Brooks
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CC Russ Houldin, Lisa Brickenden

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