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BARRISTERS & SOLICITORS

August 28, 2007

Mr. Peter O'Dell
Assistant Board Secretary
Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto, Ontario
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Dear Sir:

Re: Distributed Generation: Rates and Connection – EB-2007-0630

On July 13, 2007, the Ontario Energy Board (“Board”) initiated a consultation process to consider issues related to rates and connection for distributed generation (“DG”) in Ontario. The Board expects the consultation will result in a policy framework for DG, serving as the basis for subsequent rate applications from electricity local distribution companies (“LDCs”) on these issues.

Board Staff retained EES Consulting Inc. (“EESC”) to provide technical expertise regarding the DG issues and to conduct a review of DG in selected jurisdictions. EESC set out the results of its study and its recommendations for dealing with the DG issues in Ontario in a report entitled, *Discussion Paper on Distributed Generation and Rate Treatment of DG*, (“the EESC Paper”). In addition, Board Staff prepared a related Discussion Paper on the DG issues. The Board is seeking comments on the EESC paper and the Staff Discussion Paper. The Consumers Council of Canada has reviewed the two papers and is providing the following comments.

Overview:

The Council acknowledges that the Government of Ontario is seeking to encourage DG from renewable or clean energy sources and to remove barriers in reaching that objective. The Council supports the development of DG in Ontario and considers it appropriate that the Board establish a policy framework to oversee that development. The Council does not believe, however, that the development of DG in Ontario should be subsidized by the ratepayers of the LDCs. The rates and rules around DG in Ontario should be established in such a way to ensure cross-subsidization is minimized to the extent possible. A careful consideration of the relevant costs and benefits is critical to the development of the policy framework.

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Board Staff notes that in addition to receiving submissions on rates and connection policies they would like to gather information on the remaining institutional or regulatory barriers to the implementation of DG including the Clean Energy Standard Offer Program. As a ratepayer representative the Council is not in a position to identify such barriers and accordingly, we intend to focus our submissions on the rate related issues.

Board Staff has set out a number of questions regarding key issues related to DG rates and connection policies. The Council will address each of those issues below.

Standby Rates:

The Council supports the principles recommended by EESC and by Board Staff that should guide the development of standby rates:

- Rates should be designed to reflect the costs, net of any outstanding benefits;
- The rate structure should be simple and understandable for customers and costs-effective for electricity distributors to implement and administer;
- Rates should not create artificial barriers to DG

The Council also supports a rate structure that would include a monthly demand charge that covers the costs of having distribution and transmission available when needed and a monthly customer charge that covers customer related costs.

The challenge for the Board is to identify and quantify benefits that would occur with load displacement generation and flow those benefits back to the generation customers. Board Staff notes that there is no widely applied methodology used to quantify benefits of load displacement generation. The Council recommends that the Board establish a working group to consider the alternatives advanced by EESC. The working group should consider among other things:

- What are the alternatives to quantify benefits and costs associated with load displacement generation?
- Should there be a distinction between large and small customers in terms of how costs and benefits are treated?
- How should costs and benefits be translated into standby rate design?
- How should any benefits be funded, if at all?
- Why should load displacement customers be given special treatment for potential benefits they may bring to the system if other customers are not?

The EESC Report and the Staff Discussion paper do not provide any information as to the impacts on other distribution customers of compensating load displacement generators for system benefits created because of their operations. From the Council's perspective clear quantitative evidence would assist in the development of alternative approaches.

Revenue Losses:

As the Staff Paper notes distributors can be exposed to revenue losses when a customer installs generation facilities that displace load that would otherwise have been purchased from the distributor. Board Staff is seeking input as to whether the net revenue loss due to customers with load displacement generation has been material. From the Council's perspective the level of potential revenue loss is relevant to the potential solution. If revenue loss is not material, then distributors can incorporate any impacts arising from load displacement when they rebase their rates, just as they do for other factors that may increase or decrease revenue in any given period. Unless the impacts are material a specific regulatory tool may not be required.

Until there is evidence that revenue losses associated with load displacement generation are significant the Council sees no need to design a specific remedy. Specifically, the Council does not support the establishment of variance accounts unless ratepayers are assured that increases in revenue associated with factors such as economic growth are also given consistent treatment.

The Council is of the view that the working group noted above could also consider this cluster of issues regarding the treatment of potential lost revenue.

Recovery of Connection Costs:

As a matter of principle, the Council submits that generators should bear the costs associated with their connection to the system. We agree that if there is a province-wide policy to subsidize generator connection costs, these costs should be socialized throughout the province and not within the service area of a particular distributor. The status quo, by which generation customers pay for connection costs directly and load customers pay through rates should be maintained. As Board Staff notes, this framework minimizes cross-subsidization, minimizes the level of connection costs and reduces a distributor's exposure to stranded costs. The Council does not support any approach that attempts to socialize connection costs.

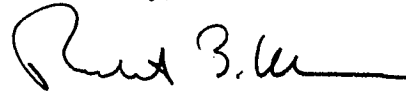
Next Steps:

EESC and Board Staff have identified the key issues related to rates and connection associated with DG that are relevant to the Ontario context. The Council is of the view that more

detailed impact analysis is required before the Board establish rates and policies associated with DG. For example, if revenue loss associated with DG is not material the need for special treatment to compensate for that revenue loss may be premature. In addition, it is not clear whether there is a simple way to calculate, and potentially compensate DG customers for benefits they may bring to a distribution system. It is also not clear as to why such costs should be recovered from all distribution customers

As noted above, the Council supports the establishment of a working group that could ~~consider in more detail, on the basis of more detailed quantitative analysis, the key issues related~~ to DG rates and connection.

Yours truly,



Robert B. Warren

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