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VIA MAIL AND EMAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
26th Floor
2300 Yonge Street
Toronto, ON
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Dear Ms. Walli:

Re: Distributed Generation: Rates and Connection
Board File No.: EB-2007-0630

As Counsel to the Vulnerable Energy Consumer's Coalition (VECC), I am writing, per the Board letter of July 13th, 2007 to provide comments on the Board Staff Discussion Paper and EESC Paper on the above issue. Unfortunately, VECC missed the notification for this process when it was issued in July and, therefore, did not respond by the July 20th, 2007 deadline indicating its intent to participate or to request costs. Nevertheless VECC believes that the issues raised in the paper are important, and provides the following comments on the Staff Discussion Paper with the understanding that the Board has not been previously notified of our intent to participate, and that we have not been granted cost eligibility. As a process involving comment only we presume that the Board will accept our comments, and we respectfully ask that the Board consider granting VECC cost eligibility for our modest time spent preparing our comments.

The comments are organized based on the sections of the Staff Discussion Paper and the issues raised in each section.

Section 3.2

- Differentiation of Standby Charges (page 8): In VECC's view, Standby Charges should be differentiated between backup, maintenance and supplemental service as discussed in the EESC Paper. Such differentiation would allow the rates to:

- Recognize the potentially significant differences between the characteristics of the service required by customers to meet regular load requirements (i.e., supplemental service) versus the standby requirements of customer-owned generation (i.e., backup and maintenance service).
- Encourage DG owners, through the design of the “maintenance rates”, to plan and schedule maintenance during low load/off peak hours.

In terms of the EESC Paper, one of its shortcomings is its failure to discuss how one might design an integrated set of maintenance and backup rates. In VECC’s view this would likely require the use either daily or hourly rates. Such an approach would reward high performing generators, encourage customers to limit the duration of their outages and permit the utility to apply different rates to maintenance vs. backup requirements within the same month.

- Billing Determinants (page 8): Based on the preceding discussion, rates for standby service should have two components:
 - A component that recovers immediate distribution system costs based on contract demand or, alternatively, maximum annual demand over one or more years. In VECC’s view, either approach is reasonable and the choice should be based on ease of application and customer acceptability; and
 - A second component (for recovering upstream distribution and transmission costs) that is linked more closely to actual usage in the relevant billing period.
- Determination of Transmission and Distribution Benefits (page 10): VECC agrees with the EESC Paper (page 6) that the distribution and transmission benefits associated with a DG project should be established at the time when the DG facility first goes into service. Furthermore, it is VECC’s view that any such benefits should not be incorporated in the standby rates. There are a number of reasons for this:
 - The benefits of DG are likely to vary depending not only upon the size but also upon the actual location of the facility within the utility. As a result, the same benefit value (i.e., \$/kW) may not be applicable to all DG installations within a distribution utility’s service area such that a standard “rate” can be established.
 - The benefits of DG may change over time and it may be inappropriate to offer the same “benefit” to a new DG owner as one that was installed a number of years ago (This is particularly the case if one adopts the marginal or incremental benefit valuation approach suggested in the EESC Paper).

Rather, in VECC's view, the preferred approach is to establish the "benefits" of DG at the time the facility first goes into service and then use this "benefit" as an offset against any capital contribution the DG owner may be required to make for connection. If the benefits more than offset the capital contribution, then there are a couple of approaches that could be used to manage the difference:

- The difference could be paid out annually to the DG owner over the time-frame used to establish the benefits, or
- The difference could be set aside and any future standby charges could be netted against it.

In order to facilitate (and standardize) the determination of DG benefits the Board should develop a framework for DG benefit analysis which would identify the types of benefits to be considered, the time frame to used and the overall methodological approach. With respect to the calculation of these benefits, in VECC's view it is important that the analysis focus on benefits that will accrue to the distributor concerned. While there may be broader system benefits associated with DG that will accrue to all consumers across the province such benefits should not be "financed" by the host distributor's ratepayers. Rather, if such benefits exist, they should be supported by provincial-wide programs offered by agencies such as the Ontario Power Authority.

- Approach Based on Size (page 10): Based on the foregoing, it would be reasonable to adopt a different approach based on size. As suggested by the EESC Paper, for very small installations (relative to the customer's overall load and the distributor's system load) consideration should be given to not applying standby charges at all. For medium sized DG installations a standard (\$/kW) benefit value could be established. It should be noted that this value would differ by distributor, based on each distributor's circumstances. What would be common would be the approach/methodology used to establish the value – as suggested above. In this regard, VECC does not believe that the marginal cost of distribution (used in the current Board's current TRC Guide) is an appropriate basis for establishing distribution benefits. It is based on an outdated estimate of Hydro One Network's avoided distribution costs and is, at best, applicable only that distributor. Finally, for larger DG installations, a customer specific analysis of benefits would be undertaken. In principle, the same sized based approach could be used for establishing the connection costs associated with DG.
- Recovery From Customers (page 10): As noted above, in establishing the appropriate recovery from customers, it is necessary to distinguish between transmission and distribution benefits, and, with respect to the former, between transmission benefits that accrue directly to the distributor whose service area the DG facility is located in vs. transmission benefits that are

viewed as accruing to customers throughout the province. The local electricity distributor should only be responsible for establishing and crediting benefits that accrue locally. Other customers of the local distribution facility should not be expected to pay for benefits that will accrue to all consumers in the province. Based on the above approach suggested by VECC for recognizing “benefits”, all customers would indirectly pay for the “benefits” through either reduced capital contributions or through the funding/financing of the “benefit fund”. In general, the distribution and transmission benefits should be recovered from customers in the same manner as the cost of distribution and transmission service.

- Separate Rate Classification (page 11): VECC agrees with EESC that there is merit in establishing a separate rate classification for customers with load displacement generation. Such an approach would allow for the use of different billing determinants, recognize the unique load profile associated with standby requirements (particularly maintenance and backup requirements) and recognize that “connection costs” are not paid for by the DG owners through rates but rather through a separate contribution process. VECC also agrees with the suggestion that the overall size of the DG facility (along with the size of the facility relative to the customer’s total load) are relevant criteria for establishing a separate customer class. There may be other relevant criteria which are related to the specific host distributor (e.g., DG size relative to size of distributor). However, these would have to be established on a case by case basis.

Section 4.2

- Compensation of Distributors for Revenue Loss (page 14): VECC strongly disagrees with the suggestion that distributors should, as matter of common practice, be compensated for net revenue losses due to distributed generation. In its RP-2007-0266 Report the Board noted that:

“LRAM is a retrospective adjustment, which is designed to recover revenues lost from CDM activities in a prior year. It is designed to compensate a distributor only for unforecasted lost revenues associated with CDM activities undertaken by the distributor within its licensed service area.” (page 8)

As such, the LRAM was meant to remove any disincentive that distributors may have to initiate or deliver CDM programs. It was not meant as a mechanism for addressing uncertainties associated with a distributor’s load forecast. In VECC’s view, the obligations of distributors with respect to distributed generation are clearly set out in the Distribution System Code and no “incentive” is required for distributors to follow the Code. Distributors should not be eligible for compensation due to new DG facilities any more

than they are eligible for compensation for loss of load due to business relocation to another service area.

Section 5.2

- Connection Costs (page 17): VECC agrees that additional connection costs attributable to the existence of generation should be paid for (separately) by the DG owner. Connection costs associated with the “load” normally met by the DG facility would be recovered through the standby rates and not subject to a separate “charge”. Since connection costs, particularly for large facilities, are likely to vary by individual customer, the application of a standard rate to all DG customers would be inappropriate. Having said this there may be some merit in distributors developing a standard connection charge (i.e., \$/kW) that would apply to all DG owners below a certain size. Finally, VECC believes that its foregoing suggestions regarding the calculation and treatment of benefits will help address the concerns of DG owners as expressed on page 16 of the Staff Discussion Paper.

It is unclear what, if any, additional steps will be associated with this consultation (as opposed to the Board’s broader consultation on distribution rate design). As noted earlier, VECC did not apply for “costs” with respect to EB-2007-0630, and asks the Board to consider whether VECC might be granted cost eligibility. If the Board is of the mind that VECC should not be granted eligibility for costs at this time, and the consultation is to involve additional significant steps, VECC would appreciate the opportunity to make a late application for cost eligibility on a go forward basis.

Yours truly,



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