

**Ontario Energy
Board**
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656

**Commission de l'énergie
de l'Ontario**
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416- 481-1967
Télécopieur: 416- 440-7656



VIA E-MAIL AND WEB POSTING

January 29, 2008

**To: All Licensed Electricity Distributors
All Licensed Generators
All Participants in Consultation Process EB-2007-0031
All Participants in Consultation Process EB-2007-0630
All Participants in Consultation Process EB-2008-0003
All Other Interested Parties**

**Re: Streamlining of Board Policy Initiatives on Distributed Generation
Issues and New Distribution Connection Cost Responsibility
Initiative
Board File Nos.: EB-2007-0031, EB-2007-0630 and EB-2008-0003**

Distributed generation is expected to increase significantly in the coming years. This is particularly so in the context of implementation of the government's goals in relation to the development of renewable supply in the Province. In 2007, the first year of operation of the Renewable Energy Standard Offer Program, the Ontario Power Authority ("OPA") signed 241 contracts for 915 MW of generation from facilities that use renewable sources and will be connected at the distribution level. The OPA has announced the launch of the Clean Energy Standard Offer Program, which is expected to result in a significant uptake of gas-fired generation also connecting at the distribution level. In light of these and other developments, cost responsibility and other issues associated with distributed generation connections are currently being examined by the Board.

Specifically, at the present time the Board has two consultation processes underway that directly address issues related to distributed generation. The following were identified as issues in the Distributed Generation – Rates and Connection consultation (EB-2007-0630): connection cost responsibility; rate classification; and stand-by rates for, and revenue losses associated with, load displacement generation. The question of whether distributed generators should pay regulated "use of system" charges has been an issue in the Rate Design for Electricity Distributors consultation (EB-2007-0031). In addition, the recently-launched Transmission Connection Cost Responsibility Review consultation (EB-

2008-0003) addresses issues that are pertinent to and may inform the Board's approach to connection cost responsibility associated with distributed generation.

The Board has determined that more efficient outcomes will result from a streamlining of its approach to distributed generation issues, and has therefore decided to commence a "Distribution Connection Cost Responsibility Review" to provide a forum for the further examination of the issues.

This letter sets out additional detail regarding the Distribution Connection Cost Responsibility Review, and identifies the modifications that are being made to existing consultation processes as a result.

1. New Distribution Connection Cost Responsibility Review

a. Scope and Timing

The Distribution Connection Cost Responsibility Review will examine the issue of cost responsibility associated with the connection of generation facilities to electricity distribution systems. The Review will include consideration of the merits of regulated "use of system" charges as a method of recovering costs that may be the responsibility of the distributed generator. It will also include consideration of cost responsibility for transmission upgrades that are triggered by distributed generation connections to a distribution system and the associated implications for the Transformation Connection Pool and, in some circumstances, to Line Connection Pool.

The Board's current approach to cost responsibility associated with connections to distribution systems, as embodied in the Board's Distribution System Code, is consistent with the Board's approach to cost responsibility associated with connections to transmission systems. As described in the Board's letter of January 4, 2008 (a copy of which is attached as Appendix A to this letter for convenient reference), the Board has initiated a consultation process to examine the issue of cost responsibility associated with the connection of facilities to electricity transmission systems.

The Distribution Connection Cost Responsibility Review will commence later this year once the Transmission Connection Cost Responsibility Review has been substantially completed. This will enable the results of the latter Review to inform the former. Stakeholder comments regarding cost responsibility made to date in the Distributed Generation – Rates and Connection consultation process will be informative in assisting to define the scope of the new Distribution Connection Cost Responsibility Review. That scope may also include examination of cost responsibility in relation to distribution connections for load facilities.

Further details regarding the Distribution Connection Cost Responsibility Review and how to participate in it will be made available in the latter half of 2008.

b. Extended Invitation to Participate in Transmission Connection Cost Responsibility Review

In the interim, the Board acknowledges that stakeholders with an interest in cost responsibility issues as they pertain to distributed generation connections may now have a heightened interest in the examination of those issues as they pertain to transmission connections. The Board will therefore allow an opportunity for additional interested parties to register their interest in participating in the Transmission Connection Cost Responsibility Review. Interested parties that wish to avail themselves of this opportunity should file a letter with the Board indicating their interest as soon as possible but in any event no later than **February 4, 2007**, and in accordance with the filing instructions set out in the Board's letter of January 4, 2007. The letter should include a statement as to whether the participant intends to attend the initial stakeholder meeting scheduled for **February 14, 2008** and/or whether the participant wishes to be on the distribution list for future developments in the Transmission Connection Cost Responsibility Review. The Board has today issued and posted on its website (at www.oeb.gov.on.ca) a letter providing further detail regarding the initial stakeholder meeting in the Transmission Connection Cost Responsibility Review.

2. Restructuring of Distributed Generation Initiatives

As a result of the creation of the new Distribution Connection Cost Responsibility Review, cost responsibility issues associated with distributed generation connections are being removed from the Distributed Generation – Rates and Connection consultation. In addition, the issues of rate classification and standby rates for load displacement generation are being moved to the Rate Design for Electricity Distributors consultation. The Distributed Generation – Rates and Connection consultation will therefore be limited to the issue of the development of a standard methodology for quantifying benefits from distributed generation, and is expected to come to completion in the spring of 2008.

As noted above, the merits of the development of regulated “use of system” charges will be considered as part of the new Distribution Connection Cost Responsibility Review. If such charges are to be implemented, their design will be included in the Rate Design for Electricity Distributors consultation.

For convenience, the following table summarizes the category of distributed generation issues to be addressed in each of the Board's consultation processes and the staff contact person for each.

Distribution Connection Cost Responsibility Review	Distributed Generation – Rates and Connection	Rate Design for Electricity Distributors
<p>Cost responsibility for distributed generation (and potentially load) connections, including:</p> <ul style="list-style-type: none"> • cost allocation • merits of recovery of costs borne by distributed generators through regulated “use of system” charges • cost responsibility for transmission upgrades triggered by distributed generation/Transformation and Line Connection Pools 	<p>Development of standard methodology for quantifying benefits from distributed generation</p>	<ul style="list-style-type: none"> • Standby rates for load displacement generation • Rate classification • Design of regulated “use of system” charges (if supported by findings in Distribution Connection Cost Responsibility Review)
<p>Board staff contact: David Brown 416-440-8123 david.brown@oeb.gov.on.ca</p>	<p>Board staff contact: Beverley Jaffray 416-440-8101 beverley.jaffray@oeb.gov.on.ca</p>	<p>Board staff contact: Laurie Reid 416-440-7623 laurie.reid@oeb.gov.on.ca</p>

Any questions regarding the distributed generation consultation processes referred to in this letter should be directed to the applicable staff contact person identified in the above table. The Board’s toll-free number is 1-888-362-6273.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary

Attachment

Appendix A

**Board Letter of January 4, 2008 Regarding Initiation of the
Transmission Connection Cost Responsibility Review**

(see attached document)

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656

Commission de l'énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416- 481-1967
Télécopieur: 416- 440-7656



VIA E-MAIL AND WEB POSTING

January 4, 2008

**To: All Licensed Electricity Transmitters
All Licensed Electricity Distributors
All Licensed Generators
All Licensed Wholesalers
All Other Interested Parties**

**Re: Review of Cost Responsibility Policies for Connection to Electricity
Transmission Systems
Board File Number: EB-2008-0003**

The Board is initiating a consultation process to examine the issue of cost responsibility associated with the connection of generation and load facilities to electricity transmission systems. This letter provides some background regarding this issue, as well as an overview of the consultation process and how to participate in it.

Background and Scope

Cost responsibility associated with investments in transmission infrastructure is governed principally by the Board's Transmission System Code (the "TSC") and is also affected by the manner in which the different transmission cost pools (line connection, transformation connection and network) are defined.

The Board's current cost responsibility policies in relation to connection facilities, as embodied in the TSC, can be summarized in three points as follows: first, cost responsibility for customer-driven connection facilities should rest with the customer; second, this is also the case where the connection facilities are triggered by the needs of more than one customer; and third, there is an exception that applies where a connection facility was otherwise planned by the transmitter to meet load growth and maintain system reliability and integrity. Cost responsibility for network facilities that are required to accommodate a new or modified connection rests with the transmitter, unless the Board determines that exceptional circumstances require that cost allocation be dealt with differently.

The Board has determined that an examination of these policies is desirable at this time for a variety of reasons.

With respect to the connection of generation facilities, there is a rapid expansion of generation facilities that will require numerous connections at the transmission level.

The Ontario Power Authority (the "OPA") now has over 10,000 MW of generating capacity under contract, of which 1750 MW is already in service and a further 6,600 MW is scheduled to come into service by the end of 2010. A significant portion of the new connections are for generation facilities using renewable sources. The OPA already has under contract 1384 MW of generation from renewable sources expected to connect at the transmission level. In response to government directive, the OPA has launched a process to contract for an additional 2000 MW of renewable generation resources to be in service by 2015. Much of the renewable capacity under contract or expected to be contracted would operate intermittently, and at a relatively low capacity factor. It is expected that some of these resources are to be located relatively distant from the existing transmission grid. Connection costs could therefore be a significant component of the total cost of power from these facilities.

In the face of these and other developments, stakeholders have raised with the Board the need to reconsider its approach to cost allocation for transmission connections to ensure that its cost responsibility policies do not impede achievement of the government's expectations in relation to the development of renewable supply in the Province, as reflected in the Supply Mix Directive and other directives issued to the OPA.

The Board notes that the question of cost responsibility for generation connections has also arisen in the context of the OPA's Integrated Power System Plan ("IPSP"), and in particular in relation to so-called "enabler" transmission lines. These are defined by the OPA as radial transmission lines that need to be developed in advance to enable the subsequent development of clusters of renewable generation resources. The regulatory treatment of "enabler" transmission lines has not to date been the subject of specific consideration by the Board. The Board has traditionally dealt with transmission infrastructure cost responsibility issues largely through the TSC and remains of the view that this is the optimal approach. Consistent with that approach, the Board believes that cost responsibility issues associated with "enabler" lines are appropriately examined as part of a policy consultation process rather than within the proceeding to review the IPSP. The Board therefore intends to examine those issues as part of the policy consultation process that it is initiating today, and expects that this process will be completed on a sufficiently timely basis to in turn inform the IPSP review proceeding.

With respect to the connection of load facilities, the issue of cost responsibility was recently the subject of a review proceeding before the Board relating to the connection procedures of Hydro One Networks Inc. (proceeding EB-2007-0797). During that review proceeding and the underlying combined proceeding that was the subject of the review (proceeding EB-2006-0189/EB-2006-0200), parties expressed various concerns regarding the Board's policies, including the concern that those policies may inhibit rather than facilitate the construction of facilities that are necessary to meet regional load growth and do not provide sufficient regulatory certainty. Although the Board panel denied Hydro One's motion to review, it noted that the questions of transmission policy raised by the Board are better addressed in a policy process if that were to be

considered necessary or desirable. The Board's decision to examine cost responsibility in relation to generation connections presents a good opportunity to do the same in relation to load connections.

The Board expects that this consultation process will enable the Board to ensure that its transmission connection cost policies facilitate the rational and optimal development of transmission infrastructure in a manner that reflects the evolving needs of the electricity sector and the Province as a whole.

Overview of Consultation Process

The Board intends to use a multi-phase process for this consultation.

The first phase will consist of an initial meeting with stakeholders to solicit input on the issues to be addressed in this consultation. The meeting will also provide a useful forum in which to commence gathering information relevant to the subject matter. Details of the meeting, which is scheduled for **February 14, 2008**, together with a list of issues or questions for discussion, will be provided at a later date.

Following the initial meeting, a discussion paper on the issues will be released for comment to launch the second phase of the process. In the final phase, changes to the TSC or other regulatory instruments, if needed, will be proposed.

The Board does not intend to make cost awards available in relation to the first phase of this consultation, but anticipates that cost awards will be available for later phases.

Invitation to Participate and Filing Instructions

The Board encourages participation in this consultation process by all interested parties.

Those interested in participating in this consultation process should indicate their intent by letter addressed to the Board Secretary by **January 14, 2008**. The letter should include a statement as to whether the participant intends to attend the initial meeting with stakeholders and/or whether the participant wishes to be on the distribution list for future developments in this consultation.

The Board is aware that the issue of transmission connection cost responsibility is one that has already been the subject of interest and attention by a number of stakeholders. The Board would welcome any comments, position papers, analyses or other written materials that interested parties may wish to file in advance of the initial meeting to facilitate the framing of the issues. Any such written materials should be filed with the Board no later than **February 11, 2008**.

All filings to the Board in relation to this consultation must quote file number **EB-2008-0003** and include your name, postal address, telephone number and, where available,

an e-mail address and fax number. Three paper copies of each filing must be provided. The Board requests that interested parties make every effort to provide electronic copies of their filings in searchable/unrestricted Adobe Acrobat (PDF) format, and to submit their filings through the Board's web portal at www.errr.oeb.gov.on.ca. A user ID is required to submit documents through the Board's web portal. If you do not have a user ID, please visit the "e-filings services" webpage on the Board's website at www.oeb.gov.on.ca, and fill out a user ID password request. Additionally, interested parties are requested to follow the document naming conventions and document submission standards outlined in the document entitled "RESS Document Preparation – A Quick Guide" also found on the e-filing services webpage. If the Board's web portal is not available, electronic copies of filings may be filed by e-mail at BoardSec@oeb.gov.on.ca.

Filings must be received by **4:45 p.m.** on the required date.

All materials related to this consultation will be posted on the "Key Initiatives & Consultations" portion of the Board's web site. The material will also be available for public inspection at the Board's office during normal business hours.

Any questions regarding this consultation should be directed to David Brown at david.brown@oeb.gov.on.ca or at 416-440-8123. The Board's toll-free number is 1-888-632-6273.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary