RP-2004-0188

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15, Schedule B

AND IN THE MATTER OF the preparation of a handbook for electricity distribution rate applications.

INDUSTRY TASK FORCE ON DISTRIBUTED GENERATION ("DG TASK FORCE") WRITTEN SUBMISSIONS ON SECTION 10.6 OF THE DRAFT 2006 ELECTRICITY DISTRIBUTION RATE HANDBOOK (DISTRIBUTED GENERATION)

FEBRUARY 14, 2005

This submission is organized as follows:

PART ONE: INTRODUCTION

1. The DG Task Force is a volunteer group formed in March, 2003. It consists of approximately 70 industry participants, including consumers, generators, transmitters, distributors and retailers/marketers in the electricity and gas sectors, with an interest in furthering the establishment of policies that would create a supportive environment for the development of distributed generation ("DG") projects. Since its formation, the DG Task Force has met with industry and public officials to work toward finding clear, simple and practical solutions to the barriers currently facing DG.

2. The DG Task Force submits that DG projects create clear benefits for the province. Among them:

- DG adds to Ontario's electricity supply in a shorter time than large central plants;
- DG can assist in delaying or avoiding large-scale transmission upgrades;
- greener projects can reduce Ontario's reliance on coal;
- DG can reduce peak electricity prices, losses and transmission charges;
- DG can enhance system security and reliability;
- DG projects can make efficient use of fuel; and
- DG projects can encourage alternative fuel use.

3. Energy Minister Duncan recognized the potential for distributed generation projects in his major speech to the Empire Club of Canada on April 15, 2004, in which he stated that,

> "Distributed generation, which is also attractive from a security perspective, holds significant promise for the environment, as it suggests an electricity system that minimizes massive transmission networks, and focuses resources only where they are absolutely necessary. Our desire is to help Ontarians unlock the potential for efficient electricity generation that is around them, and we will remove barriers, free up resources and bring new thinking and new ideas to the challenges that lie before us."

4. Since then, Minister Duncan has spoken on other occasions about the merits of DG and the need to remove barriers to its development. Most recently, in the Ontario Ministry of Energy's December 21, 2004 discussion paper titled "Electricity Transmission and Distribution – A Look Ahead"[1], the Ministry indicated that "The government recognizes

[1] http://www.energy.gov.on.ca/english/pdf/electricity/electricity_transmission_and_distribution_in_ontario.pdf

that the development of a diversified, clean and renewable energy portfolio in Ontario lends itself to the development of distributed generation facilities."[2]

5. The Minister of Energy reiterated his government's support for DG again during Third Reading of the *Electricity Restructuring Act, 2004* ("Bill 100"):

> "Where possible and economically feasible, it is desirable that Ontario move to a more distributed system of electricity generation, where clean generation capacity is situated close to the consumers who require the power.[3]"

6. There are currently numerous barriers to the development of distributed generation projects in Ontario, but the DG Task Force has not approached the 2006 EDR proceeding as a means of addressing all of them. On the contrary, from the outset of its involvement in this proceeding, the DG Task Force has acted responsibly in identifying and focusing on one area that it believes, and the OEB has agreed, is within the scope of the 2006 EDR Handbook – the inequity in the current rate structure whereby the generators that are connected to local electric distribution companies' ("LDCs'") distribution systems and are responsible for certain LDC transmission charge savings are unable to obtain any of the benefits of those savings. Instead, those savings are passed on to LDCs' load customers through reduced retail transmission service rates (if the rates were designed to take existing distributed generation into account), and in other cases (where the retail transmission rates did not take existing DG into account and where new DG projects have been developed since the design and OEB approval of those rates), through the accrual of balances in applicable Retail Settlement Variance Accounts that are credited to load customers when the accounts are cleared.

7. The DG Task Force actively participated in the working group process in this proceeding, and was represented on what was referred to as "Sub-group 7.2+" of the Rate Design Working Group. That sub-group dealt with line losses, low voltage charges and distributed generation, among other matters. In early October 2004, the DG Task Force provided draft wording for the distributed generation-related section of the Handbook.

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[2] At p.14
[3] Third Reading debated and carried on division December 9, 2004. Royal Assent December 9. S.O. 2004, Chapter 23.

The draft wording set out a proposed transmission credit to distributed generators reflecting the transmission benefits achieved by locating the generation unit within the LDC, while keeping LDCs whole with respect to their obligations to pay transmission charges.

8. The issue of the appropriate treatment of distributed generation was characterized as Scope Issue No.2 in "Category C – Rate Design and Other Chapter 7 Issues", at the OEB's Issues Day sessions of November 1-3, 2004, as certain participants had disputed the inclusion of this issue in the matters to be addressed in the 2006 EDR Handbook. On November 3, the OEB issued its decision on the question of scope:

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> Scope issue number 2 was: "Does the [sharing] of potential transmission-charge savings attributable to distributed generation fall within the scope of the 2006 EDR handbook?"
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> The Board has considered this matter, and finds that this issue is within scope of this proceeding, and asks the Working Groups to attempt to resolve this issue. If agreement cannot be reached, the Board will hear argument on this issue.

PART TWO: THE PROPOSAL OF THE DG TASK FORCE (ALTERNATIVE 2(a)) REPRESENTS THE CONSENSUS POSITION RESULTING FROM THE WORKING GROUP PROCESS

9. With the OEB's determination that the matter was within the scope of the proceeding, the matter returned to the Rate Design Working Group, and more particularly, to Sub-group 7.2+. After further discussions among the group, a consensus was reached on a distributed generation section for the Handbook, corresponding to the DG Task Force's proposal. In all, the sub-group's work, including its work on the DG issue, was conducted over the course of approximately two months.

10. However, the DG Task Force understands that when the draft, consensus-based DG section was passed up to the working group executive, individuals on the executive unilaterally introduced alternatives to the consensus approach. Because OEB staff have adopted a practice of not identifying the consensus positions, if any, where alternative sections exist in the draft, the implication is that both (or all) of the alternatives have come through the working group process in the same way, and that the group charged with drafting the section simply could not arrive at a consensus. This is not the case with

respect to Section 10.6 of the draft Handbook. The consensus approach is embodied in Alternative 2(a). Alternatives 1 and 2(b) were not those of the group that was responsible for preparing the section. The DG Task Force submits that the OEB should consider this when considering the appropriate treatment of distributed generation. To ignore it negates the importance placed by the OEB and its staff on the working group process and the staff desire for consensual solutions.

PART THREE: ALTERNATIVE 2(a) PROPERLY REDIRECTS TRANSMISSION SAVINGS TO THE PARTIES THAT CREATED THEM, WHILE KEEPING LDCs WHOLE, AND WITH MINIMAL LOAD CUSTOMER IMPACTS.

11. LDCs, as transmission customers, are billed for certain transmission services on a net basis where generation exists behind the meters that measure the electricity they withdraw from the regulated transmission system, in accordance with the OEB's Decision regarding Hydro One's transmission rates (RP-1999-0044). Accordingly, where a generator is connected to the LDC's distribution system, the LDC will realize savings on transmission charges. However, unlike other transmission customers with embedded generation, LDCs cannot enter into arrangements with their embedded generators whereby those savings are passed on to the generator. The OEB's Retail Settlement Code only permits LDCs to pay the market price for electricity to the generator. LDCs are not permitted to keep their transmission savings. Instead, as noted above, those savings are passed on to LDCs' load customers through reduced retail transmission service rates (if the rates were designed to take existing distributed generation into account), and in other cases (where the retail transmission rates did not take existing DG into account and where new DG projects have been developed since the design and OEB approval of those rates), through the accrual of balances in applicable Retail Settlement Variance Accounts that are credited to load customers when the accounts are cleared.

12. Alternative 2(a) does not change the basis upon which the LDC is billed for transmission. It may currently be billed on a net basis for both network and line connection services, or on a net basis for network service and a gross basis for line connection service, depending on the age and size of the generation facilities behind its meter. The implementation of

Alternative 2(a) will not affect that, as that is a matter for transmission ratemaking. The generator will not be entitled to a credit that is any greater than the savings realized by the LDC. Accordingly, if, owing to the nature of the facility, the LDC is only saving on network transmission charges, only savings related to network charges will be available for the generator.

13. Similarly, Alternative 2(a) does not reduce the amount that the LDC collects from its customers on account of its liabilities for transmission charges. Under this proposed methodology, LDCs will charge their customers retail transmission service rates on a gross basis, as if there were no generation connected to the distribution system behind the LDC's meter. The LDC will therefore be continuing to collect what it needs to pay its transmission charges. All that is changing is that savings that are currently being passed on through lower retail transmission service rates would be redirected to the generators connected to the distribution system by way of a transmission credit to the generator reflecting the lower transmission charges being billed to the distributor achieved by locating the generation within the distributor..

14. Accordingly, LDCs will be unaffected by the implementation of Alternative 2(a). If the LDC can establish to the OEB's satisfaction that it is incurring incremental costs related to monitoring, billing, and administration arising out of the DG credit, Alternative 2(a) contemplates "a separate cost-justified submission" by the LDC for a monthly administration charge to address those costs. In this regard, the Task Force submits that Alternative 2(d), which permits the LDC to make the application for the administrative charge, is a more appropriate approach than Alternative 2(c) which requires the LDC to make the application. Typically, the OEB has not required LDCs to apply for specific rates and charges – such applications have been left to the discretion of the LDC.

15. With respect to bill impacts, the DG Task Force submits that these would be minimal, for the following reasons:

    (a) In the case of new distributed generation facilities, the facility will not have been accounted for in the retail transmission service rate, so that the load customer will

never have received the benefit of the savings. As a result, the customer would not be affected by the redirection of those savings to the generator responsible for their creation.

(b) In the case of existing distributed generation facilities, as noted above, savings are passed on to LDCs' load customers through reduced retail transmission service rates, assuming the rates were designed to take existing distributed generation into account. However, in reviewing the applications for retail transmission service rates made by LDCs in 2001, it appears that over 80% of the LDCs in the province adopted the OEB's standard retail transmission rates rather than designing rates that would reflect their own transmission-related circumstances such as the existence of distributed generation behind their meters. This means that those LDCs are already charging their customers on a gross basis for transmission, whether or not DG facilities are located behind their meters. Retail transmission service rates for those customers will remain unchanged.

(c) Similarly, Ontario Regulation 493/01, made under the *Electricity Act, 1998*, pertains to the province's debt retirement charge (the "DRC"). Generally, that charge is 0.7¢/kWh. However, that regulation contains a table of utilities (Table 1) in respect of which the prescribed DRC is less than 0.7¢. The lower DRC reflects the existence of generation behind those LDCs' meters. The DG Task Force has determined that only one of the LDCs in that table (St. Catharines Hydro Electric Commission, now St. Catharines Hydro Utility Services Inc.) has a retail transmission service rate that takes DG facilities into account. This suggests that (i) DG facilities are not currently widespread across Ontario, which in turn suggests that the redirection of the transmission savings will not affect the vast majority of Ontario distribution customers; and (ii) with the exception of customers served by St. Catharines Hydro, customers served by LDCs that have DG facilities within their service areas are currently paying for transmission on a gross basis in any event, and they will only be affected insofar as the transmission savings will not be passed on to them during future rate adjustments. In the case

of St. Catharines Hydro, which appears to be the only LDC in the province that currently passes transmission savings on to its customers in the form of lower retail transmission rates, if the transmission savings were redirected to distributed generators, the total bill for a residential customer with 1000 kWh per month would increase by 34 cents per month or 0.33%. By any reasonable standard, this is a minimal impact, particularly in light of the inequity that is being corrected.

(d) Finally, Based on an estimate in the August 2003 report of the DG Task Force,[4] based on 200 MW of new DG and 200 MW of existing DG and leaving out load displacement generation (because those customers of LDCs already receive net billing for transmission), totals of approximately $8 million in network charges and $6 million in line connection charges would be redirected to the generators that create those savings for the LDCs. As these facilities are, and will be, spread across the province, it once again appears clear that the impacts on customers of redirecting transmission savings to the entities that have created them will be minimal.

PART FOUR: THE OEB SHOULD REJECT ALTERNATIVES 1 AND 2(b)

16. Alternatives 1 and 2(a), the alternatives unilaterally added after Sub-group 7.2+ had arrived at its consensus seek to maintain the current inequitable treatment of distributed generation, to varying degrees. Alternative 1 would result in the continued flow of all transmission savings created by DG facilities to LDCs' load customers; Alternative 2(b) would result in the continued flow of 50% of the transmission savings created by DG facilities to those load customers (estimated at $0.17/month for a 1,000 kWh residential customer in St. Catharines.

17. The DG Task Force notes that cost causality is a fundamental principle in the OEB's ratemaking process. For example, while there were specific circumstances in the OEB's recent Phase 2 Regulatory Assets Decision (RP-2004-0064 and others, issued December 9, 2004), the OEB clearly attempted wherever possible to align the allocation of

[4] Available on the DG Task Force's web site at ca.geocities.com/dgtaskforce/

regulatory asset recoveries with cost causality principles. With respect to transition costs, the OEB determined that "Of the alternatives proposed for the allocation of transition costs, we find that number of customers is the allocator most closely aligned with cost causality." In using the number of customers as the allocator, the OEB agreed with the submissions of the School Energy Coalition and AMPCO, that the number of customers was the most appropriate allocator.[5] For RSVA account balances, the OEB agreed with the intervenors that allocation on the basis of energy consumed (in kWh) was consistent with cost causality.[6]

18. The DG Task Force submits that there is no principled basis for Alternatives 1 or 2(b). The principle of cost causality should not be applied selectively, whereby it would be applied where LDCs' load customers will benefit from its application but ignored where those load customers may not benefit. LDCs' load customers have been realizing what amounts to a windfall as a result of the transfer to them of transmission savings created by distributed generation facilities. These are savings that those customers did not create, and it is therefore not appropriate that they be permitted to keep them. It is only reasonable that customers advocating for the receipt of the benefits of the cost causality principle will also have to accept the potential adverse consequences of the application of that principle. Those adverse consequences are apparently minimal in any event, with respect to the correction of this inequity with respect to distributed generation.

PART FIVE: CONCLUSIONS

19. As discussed above, distributed generation facilities connected to LDCs' distribution systems have, to date, been denied the benefit of the transmission savings that they have created for LDCs. Instead, those savings have flowed, and/or will flow, to the LDCs' load customers who have not created those savings, and they amount to a windfall for those customers. This is not the only barrier to the development of distributed generation in Ontario, but it is an inequity that can, and should, be corrected in this proceeding. This

[5] At para.7.0.67, at p.73
[6] At para.2.0.35, at p.20

correction is also consistent with the provincial government's desire to remove barriers to distributed generation in Ontario.

20. Alternative 2(a), the consensus position reached by Sub-group 7.2+ in accordance with OEB staff's desired process for the development of the draft Handbook, corrects this inequity. While as a matter of the principle of cost causality, the savings should not flow to the LDCs' customers in any event, it would appear that on the basis of retail transmission service rates currently on the public record, the correction can be achieved with LDCs kept whole and with minimal bill impact for customers, as most LDCs are currently billing their customers for transmission on a gross basis in any event, regardless of the existence of distributed generation facilities within their service areas.

21. Accordingly, for all of the reasons set out above, the DG Task Force requests that the OEB adopt Alternative 2(a), and Alternative 2(d) with respect to administrative charges, for Section 10.6 of the 2006 EDR Handbook.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 14th DAY OF FEBRUARY, 2005.

Original signed by James C. Sidlofsky
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