

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")
RESPONDING SUBMISSIONS ON SECTION 10.6 OF THE
DRAFT 2006 ELECTRICITY DISTRIBUTION RATE
HANDBOOK (DISTRIBUTED GENERATION)**

FEBRUARY 28, 2005

INTRODUCTION:

1. The DG Task Force filed its initial submissions in this proceeding on February 14, 2005. It will not repeat its argument here, but it will remind the OEB and the participants of its conclusions:
 - (a) DG 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 correction is also consistent with the provincial government's desire to remove barriers to distributed generation in Ontario.
 - (b) 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 DG facilities within their service areas.
 - (c) Accordingly, for all of the reasons set out in its February 14th submission, 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.

2. Of the approximately 30 submissions filed for the February 14, 2005 deadline, approximately one-third addressed DG in some way. They can be divided into four groups:
 - (a) Those that support Alternative 2(a) – these include the DG Task Force [alternatives 2(a) and (d)], the Green Energy Coalition [2(a) and (d)], ECMI [2(a) and (c)] and London Hydro [2(a) and silent as between (c) and (d)]. The DG Task Force generally supports the submissions of GEC in this regard. In addition, the DG Task Force notes that not only does London Hydro support Alternative 2(a), but it would also support "allow(ing) generators to share in cost savings of distribution expenses";¹
 - (b) Those that support Alternative 2(b);
 - (c) Those that support the maintenance of the status quo; and
 - (d) Those that take no position. This could properly describe the remainder of the submissions, but the DG Task Force specifically mentions the EDA in this context. It takes no position on the issue except to say that "The crediting of DG for transmission savings created will require additional administrative efforts for LDC and could cause significant changes to billing systems. LDCs should be allowed to recover these additional costs if there are changes to the status quo."
3. The DG Task Force will address the positions set out in items (b), (c) and (d), below.

THE "50% ALTERNATIVE":

4. The DG Task Force is encouraged by the support of consumer groups such as VECC and CME for the redirection of LDCs' transmission savings to the generators that create them, albeit to a limited degree (they would support Alternative 2(b), with its 50% credit). Clearly, if the OEB were to determine that DG facilities should not receive credit for all of the transmission savings that they create, a 50% credit is preferable to the status quo, which simply perpetuates a windfall for consumers that played no part in creating the transmission savings that are being passed on to them either through lower retail transmission service rates (although as noted in the DG Task Force's February 14th

¹ At p.4 of the London Hydro submission of February 14, 2005

submission, practically all LDCs that have embedded generation adopted the OEB's standard retail transmission service rates, which do not take DG into account) or through the accrual of the savings in Retail Service Variance Accounts that will ultimately be cleared.

5. However, the DG Task Force submits that there is simply no basis for the half-measure of Alternative 2(b). No participant in this proceeding has suggested that the LDC's load customers have had any role in creating these transmission savings for the LDC. VECC suggests (at p.43 of its February 14th submission) that "it takes both the DG and the LDC to create the benefit that suggests sharing is appropriate." If anything, this suggests that the generator and the LDC should be sharing the LDC's transmission savings. However, the LDC does not keep any of those savings now – they are passed on (either immediately or eventually) to the load customers, and no LDC has argued that it should be keeping any of those savings.

6. As for customer impacts, the DG Task Force submits that customer bill impacts should not be an issue, as on a cost causality basis, load customers should not be entitled to these transmission savings as they have done nothing to create them. As noted in its February 14th submission, customer groups that expect the benefits arising from the application of cost causality principles where the principles act in their favour cannot reasonably expect to avoid the consequences where the principles of cost causality do not favour them. However, the DG Task Force has shown in its submission in chief that bill impacts on LDC customers are anticipated to be minimal in any event, particularly since most load customers in service areas in which DG facilities exist are paying retail transmission rates on a gross basis now. Where DG facilities are installed now, the LDC's retail transmission service rates definitely would not have taken those into account. Accordingly, there is nothing before the OEB that would support the adoption of Alternative 2(b) over 2(a).

THE MAINTENANCE OF THE STATUS QUO:

7. As a general matter, the DG Task Force cannot agree with those parties that wish to maintain the status quo. Studying broader issues related to DG is important – the DG Task Force has already suggested that there are numerous barriers to its development in Ontario, and it would be appropriate for the provincial government, the OEB and other parties to consider how those barriers could be removed. However, the issue being addressed in this proceeding is one inequity that can, and should, be addressed now. As noted above, customer groups (in this case, groups such as Schools and Energy Probe) that expect the benefits arising from the application of cost causality principles where the principles act in their favour cannot reasonably expect to avoid the consequences where the principles of cost causality do not favour them. Maintaining the status quo simply prolongs this inequity, and the DG Task Force fully expects that when this matter is studied in 2007, as is the suggestion of certain parties advocating for the maintenance of the status quo, Energy Probe and Schools would resist any attempt to make retroactive the redirection of the savings to the parties that create them. Accordingly, the maintenance of the status quo simply perpetuates windfall to LDCs load customers.
8. The DG Task Force's comments with respect to Alternative 2(b) are equally applicable to the maintenance of the status quo. However, the DG Task Force wishes to comment briefly on the submissions of Schools and Energy Probe.
9. With respect to the Schools submission, there are several misconceptions and misrepresentations that should be corrected:
 - (a) Schools suggests that there is no evidentiary base for Alternative 2. The DG Task Force submits, first, that since the Issues Day sessions at the beginning of November 2004, when the OEB determined that the DG-related issue was within the scope of this proceeding, this issue has always been considered by the OEB as a matter for argument. On November 3rd, 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.

Prior to Issues Day, at the stakeholder presentations of October 26 and 27, and again during Day 2 of Issues Day when the scope issue was presented to the OEB, it was made clear that this would possibly be an issue for argument at the hearing, if it could not be resolved in the working group. Counsel for Schools was present at the stakeholder sessions. Counsel to Schools was present at the Issues Day sessions, and was silent on this issue. It was resolved at the working group, but the DG Task Force will not revisit here the process concern it addressed in its February 14th submission. It is not reasonable for counsel to Schools to suggest now that another process should have been adopted by the OEB. In any event, the DG Task Force's February 14th submission illustrates, using the information on the public record, that the impact of Alternative 2(a) on customers' bills will be minimal.

- (b) Second, this issue relates to the inequitable treatment currently being received by existing DG facilities, and that will be received by new facilities if it is not corrected. It is not, strictly speaking, about customer bill impacts – it is more accurately about removing a windfall to which load customers should not be entitled. However, the DG Task Force's reasons for suggesting that there will be minimal or no impacts on consumers' bills have been given in the DG Task Force's February 14th submission. It appears that customers of almost all LDCs in whose service areas DG facilities are located are currently paying for transmission on a gross basis, with the LDCs' transmission savings being accrued in applicable RSVA accounts. Accordingly, the redirection of the savings to the correct parties – the generators that create them – will not have an impact on customers' bills. Where customers' retail transmission service rates are already lower as a result of the existence of DG facilities, impacts will be minimal. The draft Handbook itself

provides for a further review of the issue of DG in the near future, and significant adverse bill impacts, of which the DG Task Force anticipates that there will be none, could be addressed at that time.

- (c) Contrary to the suggestion in para. 258 of the Schools submission, Alternative 2(a) does not apply only to new generation. The point of Alternative 2(a) and 2(b), with the exception that 2(b) reduces the value of the credit, is that all of the LDC's transmission savings attributable to DG facilities as defined in Section 10.6 would be credited to the facilities that created the savings. In order to ensure that this is clear, the DG Task Force recommends an amendment to the second and third paragraphs of subsection 10.6(1). Those paragraphs currently read:

The distributor will continue to charge the current retail transmission service charges to its customers as if all the electricity requirements were being served from the transmission system.

With respect to generation developed after the current rates were set, since the rates have not been reduced to take into account that new generation, the distributor is effectively billing the load customers on a gross basis, with the differences being accumulated in the respective RSVA accounts.

The DG Task Force suggests that they be amended to read as follows:

The distributor will charge retail transmission service charges to its customers as if all the electricity requirements were being served from the transmission system. In this way, the distributor is effectively billing the load customers on a gross basis, with the distributor's savings attributable to distributed generation being accumulated in the respective RSVA accounts.

- (d) Also with respect to paragraph 258, the DG Task Force notes that counsel to Schools argues that DG "may create a drop in the transmission charges to a given distributor, but this will usually mean an increase in transmission charges to other distributors to generate the same revenue requirement for the transmission company." While that may be true, that is completely irrelevant to the issue before the OEB, and it is misleading to imply that Alternative 2 contributes to this outcome. The transmission revenue is lost to the transmitter once a DG facility is operating, wherever the transmission savings flow, as a result of the OEB's

decision on net billing for embedded generation in RP-1999-0044. This is clear from that decision and is acknowledged in the first paragraph of subsection 10.6(1) of the draft Handbook. The LDC will pay transmission charges on a net basis, for network service and possibly for line connection service, depending on the age and capacity of the facility. What is at issue is where those savings should flow. The transmitter has lost those revenues; the LDC is not permitted to keep them. The question is simply whether the generators responsible for the creation of the savings, or the load customers that have done nothing to create them, should have them. If the transmitter is concerned about lost revenues, this can, and no doubt will, be addressed in a subsequent transmission rate proceeding.

- (e) Similarly, the "alternative proposal" put forward by Schools at paragraph 260 simply makes no sense. First, the distributor in whose service area a DG facility is operating will simply pay less in transmission charges. The distributor will presumably be indifferent to where the transmission savings flow, because it cannot keep them – accordingly, there is no justification for requiring individual distributors to incur the costs of an application for the reallocation of transmission savings. Counsel to Schools is likely well aware that applications would not be brought by distributors under those circumstances, particularly where they would likely be exposed to intervenor funding requests from parties such as Schools. Second, in any event, the OEB has already determined, after hearing submissions during Issues Day, that this issue is within the scope of *this* proceeding. This is not an issue that should be revisited over and over on an *ad hoc* basis in various proceedings, which would be the case under Schools' proposed approach. As the DG Task Force has stated before, this is an inequity that can, and should, be corrected now. Third, the notion of the transmitter (which in this proceeding has endorsed the Alternative 2 approach) being brought into each of these proposed applications serves only to unduly complicate an already unnecessary proceeding. The transmitter is irrelevant to the question of the allocation of the transmission savings. The transmission savings are created as a result of the existence of embedded generation. As discussed in paragraph (c) above, once that facility is

operating, the transmission revenues are reduced. Whether the savings go to load customers or the generator makes no difference to the transmitter's revenues. Accordingly, the forum for the transmitter to address the impacts of DG, or embedded generation generally, is a transmission rate proceeding.

10. For all of the reasons set out above, the DG Task Force requests that the OEB reject the Schools submissions and recommendations with respect to distributed generation.
11. Energy Probe says very little with respect to DG in its February 14th submission (Chapter 10). In its first paragraph on this issue, Energy Probe notes that:

"The appropriate rate treatment for distribution charges associated with service to distributed generation is a highly complex area that has received little attention so far in the 2006 EDR process. By comparison, the appropriate rate treatment for transmission charges associated with service to distributed generation received extensive attention from the Board in RP 1999-0044."
12. To reiterate, the issue before the OEB, and that the OEB has confirmed is within the scope of this proceeding, does not relate specifically to distribution charges. It relates to the appropriate treatment of transmission savings received by distributors that have generation facilities connected to their systems. Nothing in Alternative 2 changes the manner in which distributors pay their transmission charges pursuant to the OEB's Decision in RP-1999-0044 (i.e. distributors have paid, and will continue to pay for some or all of their transmission service on a net basis where generation is located behind the meter that registers the energy they withdraw from the regulated transmission system, in accordance with the OEB's Decision). Alternative 2, in either form, will ensure that distributors will continue to have the revenues necessary to pay their transmission charges.
13. Energy Probe raises the spectre of "perverse incentives" as a result of the adoption of Alternative 2, potentially leading to stranded costs for transmitters and distributors, but Energy Probe says nothing about what those "perverse incentives" may be. It is not the role of the DG Task Force to speculate on Energy Probe's behalf in this regard. However, the DG Task Force would refer the OEB to section 4 of the discussion of

Distributed Generation in the GEC submission of February 14th (at p.5), in which GEC writes, in part:

"Some have argued that a transmission credit would induce large generators that should tie directly to the transmission system to choose a societally less optimal site within an LDC and connect through the distribution system. In fact, the limited availability of high voltage connections inside LDCs will rule out very large generation proposals that could better locate on the transmission system. If a large generator chose to do so they would face costs due to sub-optimal voltage connection or high costs of connection upgrades."

14. The DG Task Force submits that the redirection of transmission savings to the party that has created them is not an incentive, "perverse" or otherwise – it is simply a matter of equitable treatment, and is based in cost causality.

15. The DG Task Force also notes that the OEB's Distribution System Code (the "DSC"), including amendments made by the OEB last year to clarify and standardize the connection process for generators, is the vehicle for assessing the appropriateness of the connection of a particular generator to the distribution system. The OEB has clearly contemplated the connection of facilities of various capacities, ranging from micro-generators of up to 10 kW, through large generators, having capacities of over 10 MW. The generator will not be able to connect to a distribution system if system reliability concerns cannot be addressed. The DSC also provides that generators will be responsible for the costs of their connections (for example, see s.3.5.2.1 of the DSC). Accordingly, if the proposed facility would impair system reliability or involve economically unreasonable costs, it will simply not be developed. If the prospect of receiving a credit for the transmission savings created by the facility renders the project viable, it will proceed, but it will only proceed where system reliability can be maintained. Regardless of who gets the transmission savings, it will not be the transmitter – that issue was settled by the OEB five years ago in RP-1999-0044. The DG Task Force also reiterates that Hydro One supports Alternative 2, albeit the 50% approach of Alternative 2(b).

16. For the foregoing reasons, the DG Task Force requests that the OEB reject the Energy Probe position.

CONCLUSION:

17. For the reasons discussed here and in the DG Task Force's submission of February 14, 2005, Alternative 2(a), with the clarification proposed at paragraph 9(b) above and with Alternative 2(d) with respect to distributor administrative charges, is the appropriate approach to distributed generation for the 2006 Electricity Distribution Rate Handbook. It is fair; it corrects an inequity currently facing proponents of DG; it reflects cost causality; and it is consistent with the provincial government's desire, as expressed by the Energy Minister, to help Ontarians unlock the potential for efficient electricity generation that is around them, and to remove barriers, free up resources and bring new thinking and new ideas to the challenges that lie before us.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 28th DAY OF FEBRUARY, 2005.

Original signed by James C. Sidlofsky
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Generation