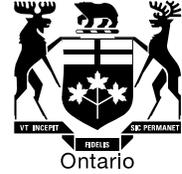


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VIA E-MAIL AND WEB POSTING

September 22, 2008

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

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

In July, 2007, the Board initiated this consultation process to examine issues pertaining to rates and connection in relation to distributed generation. By letter dated January 29, 2008, the Board advised that, as part of the streamlining of its policy initiatives on distributed generation, the scope of this consultation would be limited to the issue of the development of a standard methodology for quantifying benefits from distributed generation.

To that end, the Board has today posted on its website a report prepared by Power Advisory LLC entitled "Development of a Standard Methodology for the Quantification of DG Benefits" (the "Power Advisory Report"). An assessment of certain elements of the Power Advisory Report prepared by Board staff is attached as Appendix A to this letter.

Invitation to Comment

The Board is inviting written comments from participants on the following:

- the Power Advisory Report; and
- whether the benefits associated with distributed generation might better be addressed as an offset to any applicable connection costs that might be payable by the distributed generator.

Details on how to provide your comments are set out below.

Cost Awards

As noted in the Board's July 13, 2007 letter, cost awards will be made available to eligible persons under section 30 of the *Ontario Energy Board Act, 1998* for their participation in this initiative.

Eligibility

In addition to the participants that have been determined to be eligible for an award of costs in this consultation process in the Board's August 14, 2007 Decision on Cost Eligibility, the Board has determined that the following persons are also eligible for an award of costs in relation to the provision of comments on the Power Advisory Report and the question identified above:

- i. All participants that have been determined to be eligible for an award of costs in the "Rate Design for Electricity Distributors" consultation process (EB-2007-0031); and
- ii. All participants that have been determined to be eligible for an award of costs in the "Transmission Connection Cost Responsibility Review" consultation process (EB-2008-0003).

Maximum Cost Awards

Cost awards will be available in relation to the provision of comments up to a maximum of 25 hours.

Instructions for Filing Comments with the Board

Participants who wish to provide written comments on the Power Advisory Report and the question identified above must do so by **October 13, 2008**.

All filings to the Board in relation to this consultation must quote file number **EB-2007-0630** and include your name, postal address and telephone number and, if available, e-mail address and fax number. Three paper copies of each filing must be provided. The Board asks that participants make every effort to provide an electronic copy 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 . If you do not have a user ID, please visit the "e-filing services" webpage on the Board's website at www.oeb.gov.on.ca, and fill out a user ID password request. Additionally, participants 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. Those who do not have internet access should submit the electronic copy of their filing on CD or diskette.

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

All materials related to this consultation will be posted on the “OEB Key Initiatives” portion of the Board’s web site at www.oeb.gov.on.ca. The material will also be available for public inspection at the Board’s office during normal business hours.

Any questions relating to this consultation should be directed to Beverley Jaffray at 416-440-8101, or e-mail Beverley.Jaffray@oeb.gov.on.ca. The Board’s toll-free number is 1-888-632-6273, and the Market Operations Hotline is 416-440-7604.

Yours truly,

Original signed by

John Pickernell
Assistant Board Secretary

Appendix A To Letter Dated September 22, 2008

Board Staff Assessment of Elements of Power Advisory Report

In an earlier phase of this consultation, stakeholders emphasized that initial work on quantifying the benefits that distributed generation might provide to distribution and transmission systems should focus on measurable benefits and should use a pragmatic approach. The methodologies identified in the Power Advisory Report reflect that stakeholder input, as well as other stakeholder comments regarding the nature of the benefits that might flow from distributed generation.

The methodologies recommended in the Power Advisory Report in relation to the quantification of the benefits associated with the deferral of infrastructure investments take into account site and generator specific parameters. Board staff anticipates that consideration of site and generator specific parameters will give rise to variability in terms of the quantification of benefits.

As such, Board staff is concerned that the inclusion of benefits in the determination of standby rates for load displacement generators may not be appropriate. Specifically, in order to minimize heterogeneity within this rate classification, an array of standby rate classes or sub-classes may be required to address the expected variability in benefits, which in staff's view would not be practical. If the Board were to agree that the benefits of distributed generation should not be recognized or implemented through standby rates, the standby rates that have been declared interim pending the development of a standard methodology for standby rates that recognizes system-wide benefits could be declared final.

An alternative approach for recognizing the benefits of distributed generation could be to offset any connection costs that would otherwise be borne by a distributed generator by the value of the site and generator specific benefits using the standard methodology outlined in the Power Advisory Report. This approach, which would require amendments to the Distribution System Code, could apply to both load displacement and merchant distributed generators.

This option could be examined more closely as part of the impending "Distribution Connection Cost Responsibility Review" consultation process which, as described in the Board's January 29, 2008 letter, will examine the issue of cost responsibility associated with the connection of generation facilities to electricity distribution systems.