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BY E-MAIL AND WEB POSTING

January 24, 2013

**To: All Rate-Regulated Licensed Electricity Distributors
All Participants in Consultation Process EB-2010-0219
All Participants in Consultation Process EB-2007-0630
All Other Interested Parties**

**RE: Development of a Standby Rates Policy for Load Displacement Generation
Board File No. EB-2013-0004**

The Ontario Energy Board (the “Board”) is initiating a consultation process to develop standby rates for Load Displacement Generation (“LDG”).

Some distributors’ customers have their own generation facilities that supply all or part of the customer’s electricity needs. At times when the customer-owned generation is unavailable, the customer may require electricity from the distributor. The costs incurred by distributors in having facilities ready to supply these customers should be recovered from those same customers and the rate used for that purpose is called a standby rate.

In its March 21, 2006 Decision in EB-2005-0529, the Board declared “all existing and proposed standby rates” interim pending further review of the issues associated with standby rates. Fifteen distributors currently have standby rates for LDG - fourteen of these distributors have interim standby rates and one distributor has had its interim standby rates declared final.

In the Report of the Board in EB-2010-0219, *Review of Electricity Distribution Cost Allocation Policy*, issued March 31, 2011, the Board committed to establishing a separate consultation process to address the issues pertaining to LDG. On that basis, the Board is launching this consultation process.

There are a number of technical issues, such as cost allocation, avoided costs, benefit valuation, and rate design, which need to be addressed before the Board can finalize the standby rates for LDG.

The Board's Approach

The Board intends to establish a Load Displacement Generation Working Group ("LDGWG") comprised of participants selected by Board staff. Appendix B provides a brief summary of the objectives, scope, and required technical expertise of the participants in the LDGWG. Board staff is also in the process of retaining a consultant to assist in this consultation process.

The LDGWG will provide advice to Board staff and also inform staff's consultant on the technical aspects and issues pertaining to LDG. The advice from the LDGWG will assist in the preparation of the consultant's report. The recommendations of the LDGWG and the consultant's report will be released for written comment as part of this consultation process. Any stakeholder or other interested person will be allowed to participate in the written comment process.

Participation in the LDGWG

The Board is seeking expressions of interest for participation in the proposed LDGWG. Based on these expressions of interest, Board staff will select a representative group of approximately seven (7) and no more than nine (9) participants. Board staff expects to hold the first meeting of the LDGWG in early March 2013. It is expected that the LDGWG will have about four (4) meetings. It is also expected that the consultant retained by Board staff will attend these meetings. The LDGWG will be led by Board staff and all meeting materials and notes prepared by Board staff and the LDGWG will be posted on the Board's website to allow stakeholders and any other interested person to follow the LDGWG's progress.

Those interested in nominating themselves or a third party to participate in the LDGWG shall file their nomination letter in accordance with the filing process set out below in the "Filing Process" section of this letter. All filings must quote file number **EB-2013-0004** and include the following:

- (a) the name of the nominee and the interest or constituency represented;
and
- (b) a short statement identifying the nominee's relevant experience and qualifications.

Cost Awards

Cost awards will be available to eligible persons under section 30 of the *Ontario Energy Board Act, 1998* for their participation in the LDGWG and/or in relation to the broader consultation process, as applicable. The costs awarded will be recovered from all rate-regulated licensed electricity distributors based on their respective distribution revenues.

Appendix A contains information regarding cost awards for this consultation, including in

relation to eligibility requests and objections. In order to facilitate a timely decision on cost eligibility, the deadlines for filing cost eligibility requests and objections will be strictly enforced.

Filing Process

Please submit electronic copies of your filings in searchable/unrestricted Adobe Acrobat (PDF) format through the Board's web portal at www.pes.ontarioenergyboard.ca/eservice/ and also file two paper copies (at the address below). You will need a user ID to make filings through the Board's web portal. If you do not have a user ID, visit the "e-filings services" webpage on the Board's website at www.ontarioenergyboard.ca, and fill out a user ID password request. Please use 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@ontarioenergyboard.ca. If you do not have internet access, please provide a CD containing your filing in PDF format.

All filings to the Board must be received by the Board Secretary by **4:45 p.m.** on **February 4, 2013**. They must quote file number **EB-2013-0004** and include your name, address, telephone number and, where available, your e-mail address and fax number. All nomination letters, written comments, and filings relating to cost awards received by the Board in relation to this consultation will be available for viewing at the Board's offices and will be placed on the Board's website.

If the nomination letter, written comment, or request for cost award eligibility is from a private citizen (i.e., not a lawyer representing a client, not a consultant representing a client or organization, not an individual in an organization that represents the interests of consumers or other groups, and not an individual from a regulated entity), before making the nomination letter, written comment, or cost eligibility request available for viewing at the Board's offices or placing the nomination letter, written comment, or request on the Board's website, the Board will remove any personal (i.e., not business) contact information from the nomination letter, written comment, or request (i.e., the address, fax number, phone number, and e-mail address of the individual). However, the name of the individual and the content of the nomination letter, written comment, or cost award eligibility request will be available for viewing at the Board's offices and will be placed on the Board's website.

Any questions regarding this consultation process should be directed to Lawrie Gluck at Lawrie.Gluck@ontarioenergyboard.ca or at 416-440-7678. The Board's toll-free number is 1-888-632-6273.

ADDRESS

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Yours truly,

Original Signed By

Kirsten Walli
Board Secretary

Appendix A

Cost Awards

Development of a Standby Rates Policy for Load Displacement Generation

Cost Award Eligibility

The Board will determine eligibility for costs in accordance with its *Practice Direction on Cost Awards*. Any person intending to request an award of costs must file with the Board a written submission to that effect by **February 4, 2013** identifying the grounds on which the person believes that it is eligible for an award of costs (addressing the Board's cost eligibility criteria as set out in section 3 of the Board's *Practice Direction on Cost Awards*). An explanation of any other funding to which the person has access must also be provided, as should the name and credentials of any lawyer, analyst or consultant that the person intends to retain, if known. All requests for cost eligibility will be posted on the Board's website.

If a rate-regulated licensed electricity distributor has any objections to any of the requests for cost eligibility, such objections must be filed with the Board by **February 15, 2013**. All objections will be posted on the Board's website. The Board will then make a final determination on the cost eligibility requests.

Eligible Activities

Cost awards will be available to the chosen participants in the LDGWG who are eligible for cost awards and/or in the broader consultation process (i.e., the written comment process on the consultant's report and recommendations of the LDGWG) for those persons found eligible for an award of costs. Cost awards will cover preparation, attendance and reporting time in relation to each LDGWG meeting and written comments on the consultant's report and recommendations of the LDGWG. The maximum allowable hours per eligible participant for the activities set out above has not yet been determined.

Cost Awards

When determining the amount of the cost awards, the Board will apply the principles set out in section 5 of its *Practice Direction on Cost Awards*. The maximum hourly rates set out in the Board's Cost Awards Tariff will also be applied. The Board expects that groups representing the same interests or class of persons will make every effort to communicate and co-ordinate their participation in this process.

The Board will use the process set out in section 12 of its *Practice Direction on Cost Awards* to implement the payment of the cost awards. Therefore, the Board will act as a clearing house for all payments of cost awards in this process. For more information on this process, please see the Board's *Practice Direction on Cost Awards* and the October 27, 2005 letter regarding the rationale for the Board acting as a clearing house for the cost award payments. These documents can be found on the Board's website at www.ontarioenergyboard.ca on the "Rules, Guidelines and Forms" webpage.

Appendix B

Objectives, Scope, and Technical Expertise of Participants in the Load Displacement Generation Working Group (“LDGWG”)

Key Objectives

The key objectives of the LDGWG are:

- (a) to address issues pertaining to load displacement generation that were identified in EB-2010-0219 (i.e., cost allocation, avoided costs, existing interim rates, benefit valuation and rate design);
- (b) to develop a standard methodology that will be used to allocate costs to load displacement generation customers; and
- (c) to develop a standard methodology that will be used to design standby rates for load displacement generation customers.

Purpose and Scope

Currently, standby rates have been set on an interim basis for 14 of the 15 distributors that have Board-approved standby rates. The Board is seeking to provide a standard methodology for the setting of standby rates through this consultation process. This will allow distributors to apply the standard methodology developed and request the establishment of final standby rates for LDG.

The LDGWG will:

- (a) review the existing rate treatment of LDG by Ontario’s distributors;
- (b) review the rate treatment of LDG in other jurisdictions with similar characteristics to Ontario’s electricity market;
- (c) recommend a standard methodology that will be used to allocate costs to LDG customers; and
- (d) recommend a standard methodology that will be used to design standby rates for LDG customers.

Technical Expertise

It is expected that members of the LDGWG will have expertise in some or all of the following:

- (a) operational characteristics of LDG and its role in meeting customers’ electricity demand;
- (b) potential impacts (positive or negative) of LDG on the distribution and electricity system in general;
- (c) methodologies and principles related to cost allocation and rate design for electricity distributors; and
- (d) the Board’s Cost Allocation Model for electricity distributors.