

**Standby Rates / Load Displacement Generation Policy Working Group
Meeting 4
September 26, 2013**

These notes are intended to be indicative of discussion points and progress at the meeting, rather than an exhaustive summary of comments made by the working group members. They are provided to allow others to follow the progress of the working group.

Upon convening at 9:30am

1. BOARD STAFF SUMMARY, INTRODUCTIONS, PRELIMINARY MATTERS

Board staff provided an overview of the process and days activities, and addressed some preliminary matters raised by the group. Parties made brief introductions.

Attendance

The following people attended the meeting representing interest groups:

- Shelley Grice, Association of Major Power Consumers in Ontario (“AMPCO”)
 - Paul Luukkonen, Canadian Solar Industries Associations (“CANSIA”)
 - Jason Chee-Aloy, Association of Power Producers of Ontario (“APPPrO”)*
 - Joyce Poon, Ontario Power Authority (“OPA”)
 - Bruce Sharp, Ontario Association of Physical Plant Administrators (“OAPPA”)
 - Jan Buijk, European Power Systems Limited (“EPS”)
 - Arjan Vos, Rosa Flora Growers Limited (“Rosa Flora”)
 - Darryl Seal, Coalition of Large Distributors (“CLD”)
 - Henry Andre, Hydro One Networks Inc. (“HONI”)
 - Mike Roger, Elenchus Research Associates Limited (consultant)
 - Vince Cooney and Takis Plagiannakos, Board Staff
- *morning only

Regrets:

- Marion Fraser, Building Owners and Managers Association of Greater Toronto (“BOMA”)
- Ryan Diotte, Entegrus Powerlines Inc. (“Entegrus”)
- Bill Harper, Vulnerable Energy Consumers’ Coalition (“VECC”)

2. SECTION-BY-SECTION REVIEW OF THE REPORT

Elenchus circulated a first draft of the report in late August, parties provided their comments to this draft, and Elenchus revised accordingly. Elenchus circulated a second draft of the report including these comments, and received further comments to the draft. Staff indicated that Elenchus would do a walk through the report section by section and examine areas of agreement or where there were divergent views. Staff has attempted to provide page references where possible below. The following reflects the comments and inputs on the report from the Working Group. Board staff makes effort to refer to section

numbers in the draft report that was discussed, but cautions that it is possible that these numbers may section numbers are subject to change with issuance of the final consultant's report.

Section 1 - Introduction

Elenchus raised the issue: what happens to a customer that already has an LDG – existing customer? (With respect to benefits/avoided costs)

Comments from the group:

CLD - if you are concerned about retroactive ratemaking – it's really no different than if you created a new rate class with new rates – you could go so far as considering such an exercise retroactive ratemaking. CLD indicated that it would not consider the situation Elenchus raised as retroactive ratemaking.

APPPrO agreed with the CLD view.

Hydro One asked if the question was really about what you do with any benefits that were incurred? CLD added what do you do with somebody that connected 20 years ago? Is such a customer included?

CanSIA – voiced the view that it wouldn't want to go back in time and try to look at what previous customers did or did not do.

APPPrO pointed out the overarching view that effort should be made to keep things flexible. The group should not be overly concerned with not retroactively fixing what existing customers were paid based on what benefits they provided. The approach being proposed in the Elenchus report is a "resetting of the clock" effectively. APPPrO does not desire to curtail a discussion about looking at the benefits, but realizes that some people may not agree on the benefits. Certainly on a **go-forward** basis there can be some agreement at least with the process.

OAPPA pointed out that it could be a transition issue, or in other words an implementation issue. OAPPA expressed its view that OAPPA doesn't want to see an existing generator significantly worse off but at the same time has been considering the concept of *some* grandfathering.

Section 2

OEB – Board staff (Takis) pointed out that the 126 MW figure of installed LDG is approximate, but there is considerable confidence around this estimate. Several working group members noted that there is a footnote on page 28 of the report which speaks to the nature of the installed LDG estimate for the province.

Section 3

3.1 Defining Loads Displacement Generation

Hydro One indicated that it is fine with the definition as stated, but noted that in the table of examples there should be an additional column inserted that indicates the number of MW of standby that is required beside the column that states "standby needed?". The group also agreed to put a few additional scenarios which provide a few "more realistic" scenarios.

*Working group agreed to add another column

*Include the numbers from the last column

Rosa Flora suggested that the definition does not capture all potential scenarios. Particularly the scenario where the generator is connected to the grid, but does not require standby power. There was some debate about this amongst the group, and the consensus was that the definition is not meant to capture customers that do not require grid power when their self-generation goes off-line because such a customer is not a true standby customer. It was appreciated customer connects to the grid but does not take service. As a compromise the working group and Elenchus agreed to footnote the definition to point out the scenario that where a customer does not expect to be backed up, then they are not subject to standby rates.

OAPPA suggested – in addition to the examples -- adding a generic definition. This would cover off unforeseen scenarios.

3.2 Distributor-Specific or Province-Wide Standby Rate

Working Group agreed to input the following revisions to the language proposed by Elenchus.

*Elenchus agreed to change the text to say that the recommendation applies to the case where standby rates will be developed by the distributor (as it is possible given the recommendations in the report that the distributor may decide not to develop a standby rate should it choose to do so).

3.3 Threshold for Applying Standby Rates

OPA asked if there was any logic to the proposed thresholds of 500kW or 10%? Elenchus noted that the 500 kilowatts is a number that distributors are using, and that there is no specified reason for this threshold; however, it is similar to the general service greater than 50 kW. This 50 kW delineation is not one of pure science, but rather one that is developed previously over a long period of time and is accepted by distributors as a reasonable split. The group agreed on the inserted text noted below.

The working group asked staff to investigate how many distributors used 500 kW and include a reference in the survey results (section 2). Staff indicated that they would look into this, and would propose some commentary from the survey results section of the consultant's report.

** Board staff to perform follow up work regarding survey and provide proposed text to Elenchus for report.

** APPrO to provide some wording regarding the historical development and usage of 500 kW and the relevance of the policy. (Completed and provided before conclusion of this meeting)

Page 15 (immediately before section 3.4 of the document)

Insert “the lesser of” 500 kW and 10% of the distributors maximum demand

“customers with LDG” Elenchus proposed to clarify that this is the standby portion of the load. And also made a minor change to wording using “classified” rather than “grouped”.

The working group took no issue with the proposed edits.

Section 3.4 Cost allocation

There was discussion by the Working Group on the definition of the capacity levels used to determine a customer in a class and what capacity level is used in establishing the standby rates.

Hydro One indicated concern with the last paragraph. Was confused because it appears that just the standby portion will go into a class all on its own – wouldn't different standby classes be appropriate for considerably different rate classes?

Hydro One asked, if only the standby portion moves, then why would they be put into different classes?

Elenchus responded that if the amount of load refers to the amount in excess of the class load served. i.e., based on the displaced load. This appeared to resolve the issue for the working group participants.

Working group members indicated issue with "if the customers would have been otherwise classified General Service > 50...." sentence

**Elenchus to revise the above sentence in the report; "if the standby load..."

Board staff (Takis) asked do they need to be in separate classes at all? Hydro One responded that the sub-group that looked at the cost allocation – the standby piece is attracting costs as if it was a 2 MW load.

Board staff (Vince) suggested that the text be augmented with a table with examples to make these more clear, similar to section 3.1.

** add text that this will be subject to the technical group.

OAPPA raise an issue regarding a customer that may fall between the cracks, and 8 MW customer with 4 MW of standby generation – would fall below the threshold of both in terms of Large user class. OAPPA expressed concern that this may affect the demand charges negatively. Hydro One commented that it does matter whether the customer is net-billed or gross-billed, which in turn affects this case.

**Elenchus & Board staff will review the customer classifications to address the OAPPA question. Further study required; if the customer classification takes into account standby load, or not.

OAPPA added that if the customer is currently being treated as a large user, then that treatment should be maintained, by partitioning the same total LU-related costs into two cost buckets.

The working group expressed hesitation to delay addressing the matter until a "Phase II" part of the consultation. Some members of the group stated that they expected these are the type of issues that were to be addressed by this working group

OPA asked if the load requirement definitions for rate classes are defined to be inclusive of its gross load. Or do you assume that the definition of a large user is defined as net of its generation load? Board staff noted that it is problematic to redefine certain terms, especially where the Board has already set rules.

OPA made the point that, in the case of CDM – if a load comes down it remains reduced since is it predominately due to capital investment into improved efficient equipment, but that standby benefits will only be temporary consistent with the definition that there is a need to provide back-up service as the generator goes off. As a result it is important to recognize load reduction via conservation and that from LDG are not the same thing. Consistent with LDC standby rates, all upstream capability would also have to be available to back up the generator, when this generator goes off.

3.5 Rate Design

Elenchus proposed to change “should” to “could” → to allow flexibility to the distributor? The group agreed, but it creates the problem of the group recommending a possible action that isn’t clearly a specific outcome or final recommendation. The group indicated this is near inconclusive in terms of a being a useful recommendation to the Board.

**changing the wording to address the fixed/variable (re: flexibility)

Variable charge x the generator/contract amount -- Variable charge is not actually variable (unless the generator is off for the entire billing period.)

3.6 Billing Quantity

OAPPA indicated that it may express a dissenting opinion, by way of its stakeholder comments.

CLD interpreted that the “contracted demand” is a number that is negotiated between the distributor and the customer. And that it could take into account variables such as availability, maintenance schedules, and other factors to determine an appropriate contracted demand. Working group appeared to be ok with language additions and changes proposed by Elenchus.

Section 3.7 - Applying Standby Rates

** “could” and “should” change to language

OAPPA expressed concern with some LDCs’ ability to deal with a complex settlement process. To assist, the OEB should make available a settlement calculation template that appropriate meter data could be dropped into. As well, a third party provider might do the ongoing work.

Hydro One advanced the view that, if simplicity was the goal the on-off charge could be eliminated, with the understanding that negotiation would address or make allowance for expected outage periods for the generator.

Under the premise above from Hydro One, one would have to use the adjusted figure for the purposes of cost allocation – would still need to monitor the customers... would be easy enough to do this, even in the case of the small utility.

Section 3.8 - Excess Demand Charges – no edits or revisions were required

Section 3.9 – Firm Versus Interruptible Standby Rates – no edits or revisions were required

Section 4.2.2 – Distribution Losses (benefits) General comment – Working Group is in agreement with wording that recognizes that the potential exists that there may be higher distribution losses rather than reduced distribution losses if for example, the customer is located far away from the interface with the distributors distribution system.

Section 4.2.3 – Pass-Through Charges – no edits or revisions were required

OAPPA continues to have the specific concern that the benefit derived by LDCs in having reduced wholesale transmission charges may not be currently passed through by all LDCs to the LDG generating the benefit. This is a fundamental building block upon which standby charges can be fairly applied. This is an application of rates issued that should be dealt with -- in parallel with the standby rate process.

Section 5.1 – Non-distribution Incremental Costs

OPA pointed out that if a distributor needs to provide power to a generator that goes off-line, it's important to recognize all upstream systems (generation and transmission) would also have to be maintained on standby for the distributor to serve this customer.

Hydro One noted that in principle, LDG may cause supply problems. In practice, the extent of LDG does not factor into supply decisions because LDG installations generally do not trigger altered planning, unless the installation is above a certain threshold (1 to 2 MW). Smaller installations simply do not register.

EPS stated that is not fair to assume that all load displacement generation will be 'off' at the same time and that this is not a fair way to do planning, implying that there is a certain degree of load diversity. However it was noted that load diversity is a non-factor when discussing the benefits conveyed to a single distributor. The diversity argument would hold at transmission not at the distribution level. This comment was made by both Hydro One and OPA.

OPA noted that there could be an effect on non-distribution costs due to LDG from changes in flows on the system – but generally, should be immaterial.

**Follow-up, perhaps the report should indicate that it is immaterial given the current level of LDG penetration (point made previously by APPrO). Should strive to maintain consistency and maintain flexibility. CLD noted it made a prior comment that, at least some work group members believe that incremental costs and benefits are outside the scope of this consultation. CLD asked that this be reflected in the final report

APPrO made the observation that underlining the word new reads different than discussion this morning. Treatment of existing LDG is meant to be a go-forward treatment.

APPrO noted that the ambiguity and the calculation of benefits, doesn't necessarily have to be done by the LDC. That being said, it should be a mandatory calculation. Some party should still be required to perform the calculation. It should not be optional. APPrO does not agree that there should not be a hard requirement that the benefits calculation should be performed by the distributor.

suggesting that there be a caveat (in general – section 7.1 of the document is basically the comment, but he doesn't think the entire document doesn't telegraph that it should be a **hard requirement to quantify and calculate the benefits.

**resetting RTSR – Board staff to follow-up. (answer: RTSR revised annually)

BREAK

Elenchus Recommendations

Section 7.1 - Application of Standby Rates To LDG Customers

2nd paragraph

CLD commented in respect of the wording "borne by all". CLD indicated its view that the logic does not appear to be there

** change wording to "borne by other" (revision agreed to by working group)

Bottom of section 7.1

a number of the working group members noted that since this is the first time we're doing this exercise that we need the baseline. So in addition to new LDG we should also be asking distributors for all existing LDG at the same time. And then ask for some form of split between new and existing.

Section 7.2 - Instructions for the Development of Standby Rates

CanSIA had a concern that the text in the second paragraph should be reworded to say "take into account" in lieu of "should include..."

There was significant discussion from the working group as to where a listing regarding those things that should be included the instructions, should be provided in the report. The working group argued that in section 7.2, the section titled Elenchus Recommendations, is not the place for it.

**ultimately the working group decided to move the list of recommendations to section 3.10

**Bullet 11 regarding benefits is to be made neutral.

Section 7.4 –Non-Distribution Benefits

**Non-distribution benefits should not be recovered from distribution rates. (CLD suggestion, and adopted by the workgroup)

Board staff – the new regulatory framework provides the possibility (Regional Planning) of taking the non-distribution benefits into account.

Executive Summary

Board staff (Takis) -- asked Elenchus if it could expand the Executive Summary to reflect on the changes that came about in today's session.

--END OF SECTION BY SECTION REVIEW OF THE REPORT

“Phase II” discussion - Discussion of Instructions and Approach to Development of Standby Rates

CLD had concern with uncertainty around standby rates that will continue for a long period of time based on the release of the consultant’s report, hypothetically followed by a staff report to the Board, which would then be followed by a Report of the Board which only then would indicate the direction be taken with respect to guidelines/instructions. CLD estimated that this could take several months, and that we would be no further ahead. CLD view was that this working group was to prepare these technical instructions for the Board.

Discussion for developing instructions followed from all work group members yielding the general view that:

If we are to develop instructions before the release of the report, the working group and consultant needs to immediately identify the gaps where we need to provide instructions, and who would be best able to provide in-depth technical input in these areas.

**Elenchus to look at the specific areas that require technical expertise things needed to be developed to put standby rates in place. Specific changes to the cost allocation, rate design, how RTSR are to be determined for the new class, etc.

The workgroup agreed to an approach of providing the following two items to one of the Board's committees and to seek advice on approach to developing instructions:

- 1) the consultant's report, and
- 2) a summary of the areas where developed technical instructions are required.

Staff would then seek insight from the Board Committee as to whether the committee believes it would be more appropriate to hold back the release of the report and instead do further work with respect to develop instructions prior to releasing the consultant's report (which would then include information regarding those instructions). Several members of the working group believed that additional information regarding instructions put together by a technical sub-group of the existing working group would be more useful to the Board and likely result in more efficient outcomes.

The working group members have all agreed to confer with their colleagues as to people or resources that would be appropriate to be included on a sub-group to complete in this necessary technical work. (But that this work would not begin until the Board Committee were to endorse this approach. Hydro One indicated the desire to avoid fruitless discussion. The working group needs to ensure that the Board is in tune with this approach.

3. ACTION ITEMS AND NEXT MEETING

Scheduling

** Elenchus to provide copy of the report the week of September 30

** Report to be circulated on October 4 or the week following.

** Working group members to provide any final (non-editorial) comments by the 14th-20th October.

** Board staff to present the draft Elenchus report and document to the Committee and advancing the position of the working group members that technical instructions should be further developed before releasing a consultant's report. Members of the working group believed that additional information regarding instructions put together by a technical sub-group of the existing working group would be more useful to the Board and likely result in more efficient outcomes.

Staff indicated that a meeting would most likely take place in early November provided schedules remain unchanged.

** Staff to advise working group in November regarding scheduling of a next meeting, if there will be one prior to issuance of consultant's report.

** Elenchus to finalize the report before the end of October.

Meeting Adjourned 2.35pm

Last Revised: Tuesday, October 8, 2013 (v1)