



APPrO

ASSOCIATION OF
POWER PRODUCERS
OF ONTARIO

June 6, 2006

Re: OEB Cost Allocation Review for distribution File #: EB-2005-0317

John Zych
Board Secretary
Ontario Energy Board
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Toronto, Ontario, Canada M4P 1E4
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CARreview@oeb.gov.on.ca

Dear Sir,

APPrO is a non-profit organization representing electricity generators in Ontario. Our members produce the great majority of power generated in Ontario from facilities of many types including gas-fired, hydro-electric, nuclear and wind energy, and collectively represent billions of dollars of invested capital in the provincial energy system. In addition, our members are involved in the development of new generation, and are thereby concerned about the conditions under which any potential future generation facilities would operate.

APPrO also represents many companies and individuals who are concerned with small scale and distributed generation, and has maintained an active involvement in issues of this nature. APPrO was the primary instigator of the Distributed Generation Industry Task Force, which has been one of the most prominent advocates for distributed generation in Ontario in recent years.

As an organization, APPrO has participated in numerous proceedings before the Ontario Energy Board, and consistently striven to present its case in a way that is mindful of the public interest, and of assistance to the Board in its deliberations.

Ontario's energy future is likely to rely increasingly on various forms of cogeneration, distributed generation, self-generation, and backup emergency generation. These supply solutions have many benefits, among them reduced reliance on new transmission capacity and the prospect of being more acceptable to local communities. The success of this sector, however, will depend in part on the development of appropriately designed rates for the distribution services that are required by these types of generators.

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APPrO therefore believes that the Ontario Energy Board's Cost Allocation Review, which will serve as the basis for future distribution rate design decisions, will have a significant impact on the future development of innovative generation technologies in Ontario. The Staff Proposal Regarding Rate Classifications and Associated Load Data Requirements will determine the information that will be available for assessing the rate classification options and cost allocation methods needed to ensure that innovative generation technologies have access to the distribution services they require at equitable rates.

APPrO has reviewed the Staff Proposal Regarding Rate Classifications and Associated Load Data Requirements ("Board Staff Proposal") with care. Overall, the Board Staff Proposal appears to identify most of the data requirements that in APPrO's view would facilitate an assessment of rate classification options, cost allocation methods and rate design alternative that may be appropriate for dealing with the diverse distribution service needs of the generation sector. However, APPrO strongly urges Board Staff to consider modest refinements to the data requirements for two of the rate classifications as set out below.

Rate Classification 9, Standby Power/Back-up Power

With respect to the data requirements for this rate class, APPrO recommends that the Board Staff require distributors to provide some additional detail related to hourly load and generation data included in the Board Staff Proposal.

Hourly Load Data

The Board Staff Proposal indicates that distributors will be required to "provide hourly load data ... for one year for each standby power customer." APPrO also recommends that hourly load data for the Standby Power/Back-up Power rate class be further broken down into two components:

- load that occurred in an hour during which the customer's generation was not available due to an unscheduled outage, and
- load that occurred in an hour during which the customer's generation was not available due to a scheduled outage (e.g., maintenance, economics, etc.).

If a particular LDC is unable to provide this information either based on its existing records or by surveying its Standby Power/Back-up Power customers, the LDC should explicitly identify the information as "not available". In that case, generators should have the opportunity to file this information with the Board. Whatever the source of the information, it will be important for the Board to be able to differentiate between the discretionary and non-discretionary hourly loads of Standby Power/Back-up Power customers in assessing the demand for distribution services under alternative rate class, cost allocation and rate design scenarios.

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Specifically, this additional detail will enable the Board to determine the extent to which the hourly load occurred because:

- adequate generation capacity was not available and could not have been utilized even if the LDC had been unable to distribute power to the customer, and
- adequate generation capacity could have been available (and would have if appropriate financial incentives were in place) if transmission or distribution system capacity was constrained.

This information will assist in developing cost allocation scenarios that determine the extent to which future investment in the distribution and transmission systems could be avoided through the appropriate recognition of diversity benefits, the use of interruptible/curtailable rates, and other strategies for utilizing transmission and distribution facilities more efficiently. If these opportunities are not properly examined, the potential benefits of cogeneration, distributed generation, self-generation and backup emergency service may not be fully realized. The result would be higher costs and a less flexible and less reliable electricity system in Ontario.

APPrO believes that because the Cost Allocation Review is looking beyond the status quo and considering rate classes and rate designs options that would enhance transmission and distribution efficiencies, it is appropriate to have a more refined understanding of the Standby Power/Back-up Power loads.

Hourly Generation Data

APPrO recommends that in addition to providing “hourly ... generation data (metered or estimated) for one year for each standby power customer, the LDCs be required to classify generation in each hour as:

- Non-load-displacement generation – that is, generation that occurred during an hour when the LDC was unable to distribute incremental power equal to the power generated due to (i) a transmission or distribution system outage during some portion of the hour, (ii) insufficient distribution system capacity to meet the customer’s total load (i.e., distributed power plus generation), or (iii) any other reason, or
- Load displacement generation – that is, generation that occurred during an hour when the LDC was able to distribute incremental power equal to the power generated by the Standby Power/Back-up Power customer.

APPrO further recommends that the load displacement generation category noted above be further subdivided into:

Economic load displacement generation – that is, generation that occurred during hours when the incremental cost to the customer of generation was less than the HOEP during that hour, and

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Uneconomic load displacement generation – that is, generation that occurred at a time when the incremental cost to the customer of generation was greater than the HOEP during that hour.

If a particular LDC is unable to provide this information either based on its existing records and market information or by surveying its Standby Power/Back-up Power customers, the LDC should explicitly identify the information as “not available”. In that case, generators should have the opportunity to file this information with the Board. Whatever the source of the information, it will be important for the Board to be able to differentiate between the discretionary and non-discretionary generation by Standby Power/Back-up Power customers in assessing the demand for distribution services under alternative rate class, cost allocation and rate design scenarios.

This information is required to enable participants in the Cost Allocation Review process and the Board to determine the extent to which distributed generation that requires Standby Power/Back-up Power was used to:

- displace higher-cost generation
- displace lower-cost generation
- provide emergency or other supply when the customer’s demand could not be met by the LDC in whole or in part (i.e., did not displace load).

APPPrO believes that it may not be appropriate to allocate distribution costs to the Standby Power/Back-up Power class on the basis of all power generated by Standby Power/Back-up Power customers without taking into account appropriate diversity and reliability benefits. Provision of the recommended data is necessary to enable parties and the Board to assess the significance and method for developing an appropriate allocator using generation data.

APPPrO also believes that distribution system benefits, including diversity benefits, may be significant for generation that is responsive to the cost of power. In particular, generation that is generally on-line only when demand is high may tend to relieve peak demand conditions to an extent that would be understated if the correlation between generation and demand/price conditions is not considered.

Rate Classification 10, Merchant Generation

With respect to the data requirements for this rate class, APPPrO recommends that all LDCs with Merchant Generators in their service areas be required to provide appropriate load shape data. In essence, this implementation of a Merchant Generation class should be modeled for information purposes as part of Run #2 (mandatory) rather than Run #3 (optional). This approach will enable the Board to have better information to consider the merits of requiring LDCs to create a separate Merchant Generation class upon request, as a matter of policy.

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APPrO believes that it may be appropriate for the Board to make a decision at a policy level as to the appropriateness of distributors having a separate Merchant Generator rate class. If only those distributors that wish to establish a separate Merchant Generator rate class file relevant load data, the information on the record is likely to reflect a selection bias that skews the perceived costs and benefits of this class of load. In order for the Board to make a fully informed decision on this matter it will be important to have complete and unbiased data on the record for the Cost Allocation Review.

APPrO has not been involved in this proceeding before and was unable to consult fully with its members in the short time available for this process, between May 26 and June 6. We may therefore submit further comment at a later date, once there has been time for internal review. We respectfully request that in future, more advance warning be provided by the OEB before deadlines of this nature are set.

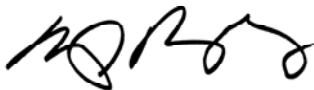
For the purpose of future correspondence with APPrO on this matter, we ask that you send materials to the following contact people:

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Thank you for your attention to this matter,



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