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APPrO

ASSOCIATION OF
POWER PRODUCERS
OF ONTARIO

**SUBMISSION OF THE ASSOCIATION OF POWER PRODUCERS
OF ONTARIO (“APPrO”) ON THE NOVEMBER 17, 2005
ONTARIO ENERGY BOARD STAFF DISCUSSION PAPER ON A STANDARD
OFFER PROGRAM FOR ELIGIBLE DISTRIBUTED GENERATION**

OEB FILE NO. EB-2005-0463

WITHOUT PREJUDICE

DECEMBER 5, 2005

INTRODUCTION

The Association of Power Producers of Ontario (“APPrO”) is a non-profit organization representing more than 100 companies involved in the generation of electricity in Ontario, including generators and suppliers of services, equipment and consulting services. APPrO members produce power from co-generation, hydro-electric, gas, coal, nuclear, wind energy, waste wood and other sources. APPrO's members currently produce over 95% of the electricity made in Ontario.

On November 17, 2005, the Ontario Energy Board (the “OEB”) released, for stakeholder comment, a Staff Discussion Paper on issues related to the development of a Standard Offer Program (“SOP”) for embedded clean and renewable generation pursuant to the request of the Minister of Energy in August of this year. APPrO has a keen interest in this matter, for reasons that will be clear to the OEB. Many of our members will likely be interested in participating in a standard offer electricity procurement process. We have participated in the OPA Standard Offer consultations to date, and we believe that our involvement in the OEB’s work in this initiative will be of assistance both to the OEB and to other stakeholders.

As a general comment with respect to these consultations, APPrO appreciates the opportunity to participate in the various consultation processes that are currently underway – these include a multitude of initiatives of the OEB, the OPA and the IESO. We believe that stakeholder input is of great value in the development of the policies and processes that will guide and govern the energy sector in the Province of Ontario. We should note, though, that for stakeholder organizations that rely on the involvement of volunteers, it is a significant challenge to respond to short, and overlapping, deadlines for stakeholder comment. Our comments are thus limited to high level issues, and we look forward to a more detailed review as the OEB moves forward with this proceeding.

APPrO’s comments are organized according to the sections of the Discussion Paper and the questions posed by OEB staff. Time has not permitted us to respond to all of the questions, but we trust that our comments will be of assistance to the OEB as it moves forward on this initiative.

SECTION 2.3 DISTRIBUTED GENERATORS:

Are aspects of the licensing process or requirements onerous for distributed generators? What changes would clarify requirements and simplify the application process and thereby improve the timing and economics of projects?

In its form of Generator Licence information, the OEB seeks information on the identity and financial stability of the Applicant, and on the particulars of the facility(ies) in respect of which the Licence is being sought. This is not onerous,

and should not be problematic for Applicants (including distributed generators) to provide. However, it may be possible and appropriate to streamline the process in the context of the types of licences that may be required.

In one important way, the OEB's Generator Licence already streamlines the application process: the OEB's form of Generator Licence authorizes 3 activities, as shown in this extract from the OEB's sample Generator Licence:

- 3.1 The Licensee is authorized, under Part V of the Act and subject to the terms and conditions set out in this licence:
 - a) to generate electricity or provide ancillary services for sale through the IESO-administered markets or directly to another person subject to the conditions set out in this Licence. This Licence authorizes the Licensee only in respect of those facilities set out in Schedule 1;
 - b) to purchase electricity or ancillary services in the IESO-administered markets or directly from a generator subject to the conditions set out in this Licence; and
 - c) to sell electricity or ancillary services through the IESO-administered markets or directly to another person, other than a consumer, subject to the conditions set out in this Licence.

Not only is the licensed generator authorized to carry on generation activities, but it may also carry on activities that constitute wholesaling, and that would be subject to a separate licensing requirement.

The Generator Licence Application requires the prospective licensee to indicate whether it "intend[s] to sell electricity to a consumer defined as a person who uses for own consumption, electricity that the person did not generate." If so, the Applicant must indicate whether it has applied for an electricity Retailer Licence. It may be unlikely that SOP participants would be retailing electricity. However, as the terms and conditions of the SOP are still under development, it is appropriate to suggest that if participation in the SOP would require the generator to obtain licences from the OEB in addition to the Generator Licence, then the OEB should develop authorizations similar to the wholesaling authorizations for the Generator Licence, in order that only one OEB Licence will be required for all of the SOP Generator's proposed activities. This may also involve the development of a limited form of retail licence that would enable a co-generator to sell electricity to a host. There is one caveat here – the "one-stop" application process should not be used as a means of imposing licence obligations that ought not to exist – for example, generators that are conveying electricity to transformer stations at distribution voltages in order to deliver it to the IESO-administered market should not have the equivalent of electricity distributor licence obligations imposed on them, as this may trigger more onerous and unreasonable obligations for the licensee. This suggestion is simply a means of ensuring that all activities that would legitimately and reasonably require a licence from the OEB could be addressed in a single licence.

Would coordinating the application process be helpful? Will the Board's treatment of certain information as confidential make sharing information difficult?

Please see the comments above with respect to the coordination of the application process. The Generator should be able to obtain one OEB Licence for all of its proposed activities in order that duplicative licence applications and licences are not required.

With respect to the treatment of certain information as confidential, APPrO believes that it is entirely appropriate that certain information in the Generator Licence Application be kept confidential. Commercially sensitive information must be protected in that generation is a competitive activity. If generators could be assured that information provided to other entities (the OPA, distributors) were subject to at least the same level of confidentiality as that maintained by the OEB, then sharing may be appropriate. A related matter is that even if sharing is not appropriate, consideration should be given to standardizing the information being provided to these various entities. For example, technical information required by the OEB, OPA and distributor will require various degrees of detail (the greatest level of detail likely required by the distributor). However, if certain information is required by more than one entity, that information should be filed in a similar form for all entities.

Are registration fees an economic barrier for generators larger than 0.5 MW but smaller than some other threshold? Could a tiered system of fees be tolerated? At what level(s)?

A response to this question is likely premature in advance of the OEB's work on its Cost Assessment Model. APPrO would welcome the opportunity to comment on proposed fees at that time. As for the possibility of a tiered system of fees, APPrO is not in a position to endorse that approach in the absence of an indication as to how such a scheme would work, and what those fees may be.

Are there any parts of the RRR code that are a barrier for DG?

We anticipate that SOP Generators will be exempt from the monitoring/reporting requirements of Section 6.1.2 of the OEB's Reporting and Record Keeping requirements, as they will have station capacity of less than 25 MW and will not be IESO market participants. The requirements of RRR Section 6.1.1 do not appear to be onerous, but APPrO recommends further consultation in this regard.

SECTION 3.2 STANDARDIZED DESIGN:

What is the best way to set technical standards for DG connection in Ontario?

APPrO believes that technical standards for DG connection in Ontario should be standardized to the degree possible, and that it would be helpful to look to other jurisdictions in order that connection standards may ultimately become standardized beyond Ontario. However, it is important that interested parties not lose sight of the fundamental reason for the SOP – the need for additional generation supply in Ontario. The development of standards that would apply across Canada and perhaps beyond may be desirable, and would be a worthwhile project in the longer term, but it should not delay the development of standards for the SOP generators, nor should it delay the implementation of the SOP. As the Discussion Paper recognizes (see p.6), the OEB's Distribution System Code already contains certain standardized technical requirements. In determining, standards for connection design, APPrO suggests that the OEB may wish to look first to Ontario distributors that have successfully incorporated DG facilities into their systems, while recognizing that individual circumstances may necessitate departures from the standards. APPrO supports the development of a standard that would give simplicity and predictability to design, and allow a degree of standardization of project and connection design. Additionally, APPrO would be pleased to discuss this matter further with OEB staff, as we believe that our members would likely be able to provide valuable input into this issue. Unfortunately, the timing of the OEB's request for comments on the Discussion Paper has not allowed for extensive consultation with our membership.

Is the current process adequate to resolve disputes?

As the OEB's current dispute resolution process for distributors is relatively new, it may be too early to assess the effectiveness of that process, particularly in the context of distribution-connected generation. APPrO suggests that there be further consultation on this issue prior to the finalization of a SOP.

Are the points suggested appropriate to form a connection agreement for plants under 10 MW?

The points listed at p.12 of the Discussion Paper are an appropriate starting point for a draft of an agreement, but APPrO anticipates having further comments when a draft agreement is produced. There should be an emphasis on simplicity in the Agreement to the extent possible. It is hoped that the form of SOP Connection Agreement would be shorter than the 46 page (plus schedules) document currently forming the standard generator connection agreement under the OEB's Transmission System Code.

SECTION 3.6 METERING:

Is a four-quadrant meter a reasonable requirement for SOP generators, given the power flows, charge determinants and Measurement Canada requirements?

APPrO is not able to comment on this issue at this time, but recommends further consultation prior to the finalization of the SOP.

SECTION 4.1 STANDBY CHARGES:

Are standby charges a barrier to generators who would be eligible for the standard offer program?

As OEB staff recognize in the Discussion Paper, there is a balancing process that must take place if standby charges are to be imposed – the desire for the distributor to recover the costs associated with meeting the total load of a load customer with load displacement generation behind its meter vs. the desire to ensure that the customer with load displacement generation facilities is not unduly burdened by higher than reasonable charges. APPrO is not in a position to offer a detailed analysis of standby charges at this time, and the OEB will be well aware that there is a range of opinions on the appropriateness of standby charges, their levels, and the methodology for calculating them. However, APPrO notes at this time that if load customers with load displacement facilities are to be subject to standby charges, those charges must reflect the benefits that the embedded generation brings to the system. That is, if the generation avoids or delays the need for certain distribution system upgrades, or reduces distribution system losses, the standby charge should reflect those benefits. In that way, the benefits created by the facility flow back to it, so that the generator is not effectively subsidizing distribution load customers. This is consistent with the findings of the Electricity Conservation and Supply Task Force in its Report of January 2004. APPrO and other organizations such as the Industry Task Force on Distributed Generation and the Canadian District Energy Association have raised this concern in the OPA consultations as well. Whether through pricing or rates, generators should be entitled to recover the benefits that they create. For example, the DG Task Force addressed this matter in the context of transmission charge savings that currently flow to the distributor's load customers rather than the merchant distributed generation facilities that create those savings, in the 2006 EDR Handbook process, but the OEB was not prepared to adopt the Task Force's proposed system of transmission credits in the 2006 Handbook.

APPrO suggests that the issue of standby charges requires further consideration and discussion/consultation. APPrO is concerned that implementation of an SOP, which should be a simple and streamlined process for prospective SOP generators, not be delayed and/or complicated by the suggestion that standby charges must be put in place in order for the SOP to proceed. As the Discussion Paper notes, only 16 distributors currently have standby charges, and the 2006

EDR Handbook permitted, but did not require, other distributors to apply for them, supported by distributor-specific (and in some cases, case-specific) analyses.

SECTION 4.3 CONNECTION COSTS:

If TSC-type definitions of connection were used in a distribution system, how would that affect the cost responsibilities?

APPrO agrees that an approach similar to that of the OEB's Transmission System Code should be adopted for distribution systems – that is, the generator would be responsible for its connection and upgrades to the nearest distributor-owned connection facility. Changes to distribution network facilities (and to the transmission facilities beyond them) would be socialized. As with transmission system upgrades, this would recognize the general benefit of distribution system upgrades and the pool of distribution customers amongst whom the costs would be spread.

Is it appropriate for generators to pay both direct and reinforcement costs? Should some of these costs be borne by the ratepayer? Should costs be paid by ratepayers of the specific distribution system or all Ontario consumers? How can economic connection be encouraged?

The Discussion Paper recognizes (at p.16), correctly, that “Connection cost policies do not fully recognize the benefits of embedded generation.” As noted above, APPrO believes that the costs of distribution system upgrades should be borne by the ratepayer and direct connection costs for their connection and upgrades to the nearest distributor-owned connection facility would be borne by the generator. This is consistent with the view that the creator of benefits should recover those benefits and the beneficiaries should pay for them. This is also consistent with the Government's view that Ontario's ratepayers should pay the true cost of electricity. That should necessarily include the costs of upgrading distribution systems to accommodate the generation capacity that is needed to satisfy Ontario's electricity needs. APPrO does not have a position at this time on whether the costs of upgrades should be borne by the ratepayers of the subject distribution system or all distribution ratepayers, but we do note that upgrade costs may be significant in some small distribution systems, and it would not be appropriate to see otherwise desirable SOP projects not proceed because the “deep” costs associated with the connection were too onerous for the ratepayers of the specific distribution system.

It is important to state that this submission represents the general view of the organization and may differ in some cases from the positions of individual members. It is intended only to assist in reviewing issues under discussion and is not intended to represent APPrO's final view on any matter touched upon herein.

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December 5, 2005

Delivered by E-Mail

Mr. John Zych
Board Secretary
Ontario Energy Board
Suite 2700, P. O. Box 2319
2300 Yonge Street
Toronto ON M4P 1E4

Dear Mr. Zych:

**Re: OEB File No. EB-2005-0463 - OEB Staff Discussion Paper on a
Standard Offer Program for Eligible Distributed Generation**

I am pleased to enclose the response of the Association of Power Producers of Ontario ("APPRO") on the above matter.

Sincerely,

David Butters
President