



Jim MacDougall

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RE: RESOP Rule Changes, Updated Response Letter

May 31, 2008

Dear Mr. MacDougall,

I am writing on behalf of the membership of the Ontario Sustainable Energy Association (OSEA) regarding the recent changes to the Renewable Energy Standard Offer Program (RESOP) that you announced on May 13, 2008 as well as additional discussion points for the consultation process scheduled to begin next week to improve the RESOP program for all Ontarians.

First let me state that we are happy that the consultation process has formally begun and that the OPA has acknowledged that the RESOP was and is intended to benefit community-based projects (Community Power) and that these initiatives have been effectively locked out of the program. Though surprised that changes were made without consultation, we realize that the modifications are not yet “set in stone” and that they will be adjusted with input from us and other stakeholders to ensure that the intended beneficiaries do indeed benefit.

Please note that a review of the RESOP was released by OSEA in November of 2007 titled *Renewables Without Limits* that clearly articulates recommendations for how to evolve the RESOP based on extensive stakeholder input. None of these recommendations are evident in the recently released rules. We are now in the process of updating and refining this document further to assist you in your endeavors.

The goal of a successful RESOP is to maximize renewable energy production for the benefit for all Ontarians. These benefits include reducing greenhouse gas emissions, reducing pollution along with its negative health and environmental impacts, ensuring a secure and stable supply of domestically generated electricity and creating sustainable, high value jobs for Ontarians.

Premier McGuinty has clearly established minimum targets for renewable energy in Ontario and the RESOP, as developed, was designed with no caps.



Although these changes may have been intended to provide grid capacity to Community Power projects, it is not clear that the proposed changes to the program will address “expanding the pie” or how they will provide Community Power proponents capacity on the grid.

The proposal to limit private sector developers to 1 x 10 MW project per transformer station and to potentially exempt Community Power developers from this limitation, comes at a time when a significant amount of the distribution system, transformer station capacity and transmission capacity is spoken for. Hence, going forward, the key issue for renewable energy is grid expansion, as opposed to developing a system for sharing what little remains. The key aspects of a RESOP and supporting structures that will level the playing field for Community Power are:

1. **An obligation to connect:** The point of an obligation to connect principle is that where insufficient grid capacity exists to facilitate a project, grid capacity must be expanded/modified, etc.
2. **Tiered pricing:** Community Power proponents cannot move around the province to take advantage of highest resource areas (or where there may still be grid capacity). Tiered pricing allows for true distributed generation and access to the RESOP by a number of Ontario communities.
3. **A sustainable Community Power Fund:** It is critical that the original vision of the Community Power Fund to be a sustainable entity be established – without access to early stage funding, Community Power projects will always be disadvantaged.

OSEA is working with its partners to improve the integration of renewable energy at the distribution and transmission level. We believe that rather than putting limits on generation (which is contrary to the Premier’s directives) in order to fit within the system’s current capacity, we need to find creative ways to increase the grid’s capacity to evolve Ontario’s electricity system to the vision established by the Premier. This goal of grid expansion could be achieved with the incorporation of storage, smart-grid technologies such as automated remote schedulers and even the simple requirement that additional transformers be kept in stock.

It is important to note that the context of the RESOP discussion should focus on Community Power and private sector developers, not project size. The 10MW size limit for RESOP projects was and is an arbitrary number. Community Power projects (or as they are called in the OPA presentation, community-based projects) require that local citizens own a minimum of 51% of the project’s equity.



The following recommendations are aimed at removing the barriers or limits to renewable energy production, Community Power, private sector developments, distributed generation and the realization of Premier McGuinty's vision for Ontario:

Procurement

1. An evolved RESOP should be the primary procurement method for all renewable energy in Ontario.
2. A Standard Offer Program should be created for:
 - a. Transmission connected projects.
 - b. Storage (So that wind and solar energy as well as surplus power at night can be dispatched at peak times when the cost of electricity is significantly higher increasing the grids overall capacity).

Removing Bottlenecks

3. Explicit steps should be taken to remove the transmission and distribution system bottlenecks that are preventing the connection of renewable energy projects in Ontario is line with the directive to OPA to upgrade the transmission system to allow renewable targets to be met in a timely fashion. In the meantime increased use of demand response and power storage in all parts of the transmission and distribution system should be used to maximize the present capacity and remove the orange and yellow zone restrictions.
4. To this end financial, training and technical assistance should be immediately provided to LDCs to build their capacity to model their distribution network, make the additions and changes to the network necessary to connect significant numbers of new renewable power and micro generators to the grid, and manage this improved network effectively using new tools such as smart grid controls and power storage.

Obligation to Connect



5. There should be an obligation to connect Community Power projects, at no cost to the proponent, to the distribution system since communities have paid for their local distribution system through their rate base.
6. There should also be an obligation to connect private sector projects, however, the developer and LDC should split the cost of project connection in a way that is equitable (For example, Germany has a 25(proponent)/75 (LDC) split).
7. A vacant queue position must first be offered to a Community Power proponent who has their Connection Impact Assessment (CIA) but is under the “red line.” If there is no Community Power project, the position should go to the most ready private project under the red line. Neither private sector nor Community Power proponents should be allowed to transfer or sell their queue positions.
8. To obtain a CIA, a proponent must be required to have site control.

Tariff Pricing

9. Pricing should be further tiered/differentiated to send price signals about preferred technology, scale, location and type of generation.
10. Full inflation protection for all RESOP projects should be made retroactively for all technology categories.
11. To speed up the process of project development all renewable energy projects under 10MW should be exempt from an Ontario Environmental Assessment unless the Minister of the Environment receives a request from the public. Other regulations and bodies are in place to address environmental and social impacts (ie. The MNR’s requirements, land use requirements, the OMB, etc.).
12. It may be worth considering a cheaper application fee for Community Power CIAs. If this is done, measures should be taken to ensure that the reduced price, is not accompanied by a reduced level of service.
13. The prices established in the RESOP need to be set correctly and be transparent based on cost plus a reasonable return on investment (not “value to the rate payer” which is inconsistent with other OEB regulated processes such as transmission and distribution).
14. A premium for peak dispatching should be offered to all renewable power generation encouraging the integration of storage into those technologies currently described as “intermittent.”



Connection Cost Recovery

15. Hydro One should pay for the cost of interconnection, or the cost should be recovered from the proponent over the life of the contract. To the extent that costs are borne by proponents, Hydro One should offer terms for long-term financing that are at least as attractive as those used for internal Hydro One projects. The proponent should not bear overhead charges. This is consistent with the Premier's directive regarding enabling new generation that is not restricted to the "wires" but also relates to price.

Carbon Credits

16. We believe that carbon credits should NOT be sold. However, if carbon credits are sold, in the future, double counting must not be permitted and their treatment must not reduce the net reduction in carbon emissions.

Interconnection Strategies

17. Further studies need to be done on interconnection best practices in jurisdictions such as Germany and Spain that have integrated large proportions of renewable energy. The 7th World Wind Energy Conference being held in Kingston in late June will convene experts from around the world. Working sessions led by renewable energy specialists from other jurisdictions will be of interest to energy specialists from the the Ministry of Energy, OPA, LDCs, etc. as they will be able to learn about and discuss how the challenges in other jurisdictions have been addressed and best practices have arisen.

If you have any questions or concerns regarding these points or the recommendations enclosed in the ***Renewables Without Limits*** report please feel free to contact me. We look forward to assisting you with the evolution of the RESOP and Ontario's electricity sector.

Best Regards,



A handwritten signature in black ink, appearing to read "Kristopher Stevens", with a long horizontal flourish extending to the right.

Kristopher Stevens

Executive Director