Proposed principles for Load Displacement Generation standby charges in Ontario

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The following principles are intended to summarize a number of recent discussions hosted by APPrO with selected stakeholders concerned with Load Displacement Generation (LDG) in Ontario.

Distributors are to be kept whole

First of all, there is general agreement amongst generators that rates and charges should keep distributors whole as a result of changes made to accommodate customers with generation. Local Distribution Companies (LDCs) are pass-through agencies that should be able to recover all their costs, net of the benefits that Load Displacement Generation (LDG) provides. Electricity distributors should also have incentives to operate as economically as possible and to build assets as economically as possible, which includes systematic consideration of the potential economies available through prudent connection of generation.

Consistent principles and standardized methods are preferred over a standard rate design

There is a need for province-wide consistency in the principles used for the design of standby rates and charges. There is also a need for standardization of methodology in key areas such as techniques for estimating major costs and benefits that can't be precisely calculated. And finally there is a need for a well-defined regulatory approach within which standby rates and charges are applied. However, there is no need for standardized design of the actual standby rates or charges that are used across the province.

In many cases the application of standard rates for standby service will be unusually sub-optimal, either because of a lack of homogeneity between members of the sub-class or because of highly site-specific circumstances. (For example, two generators with highly different impacts on the system being charged the same rate would lead to significantly distorted incentives in both cases.)

Principles

The following key "framework principles" should be part of the regulatory framework for the design of standby charges and rates:

a) The purpose of standby charges is to recover the costs that are directly attributable to the LDC providing standby service to the relevant LDG customer, net of benefits. The purpose of standby charges does not include the prevention or discouragement of load reduction. Other mechanisms are or should be available for distributors to manage the risk of load reduction.

b) Regulatory arrangements should ensure that distributors are in a position where they are able to facilitate and/or embrace new technology, and not be in any way threatened financially because of customer initiatives, even if the initiatives are likely to result in long term load reduction.

c) Standby charges or rates should not be mandated across all distributors in Ontario. It should be up to the LDC, in the context of its particular circumstances, to decide if standby rates or charges are necessary, and to determine the most appropriate rate or charge design for its circumstances (as long as the design reflects Board-approved principles) and to include the rates or charges in its regulatory applications.

d) The actual costs of specific equipment related to serving an LDG customer must be clearly disclosed by the distributor before preparing a standby charge or rate. If precise figures are not available, then an approved estimation method should be provided with full supporting details. Any cost calculations should also account for diversity of LD Generators and contingency built-in to distribution system assets.

e) The full range of benefits resulting from an LDG project must be comprehensively assessed and disclosed before the actual cost of common assets charged to generators can be properly quantified. If precise assessment is not possible then an approved standardized estimation method is necessary.

f) There is no need to predetermine in all cases whether LDCs should use site-specific cost allocation for standby charges or standard rates with class averaging for costs. LDCs should have the freedom to design their own rate structures and/or charges for providing standby service to LDG customers, as long as the charges respect the following "rate design" principles:

1. Ensure that the LDG project isn't unreasonably subsidized by other ratepayers or the utility, considering all costs and benefits. (Conversely, ensure that the LDG project isn't unreasonably subsidizing other rate-payers or the utility, considering all costs and benefits.)

2. In no instance should an LDC's LDG standby charges in total exceed the charge that the LDC would impose on a standard load customer (i.e. gross load billing at the distribution level).

3. Standby charges should not have the general effect of operating as a barrier to self-supply that is otherwise economically attractive as judged by the LDG customer. (This statement is not meant to suggest that there should be no standby charge in marginal cases where the application of a standby charge would by itself make a project non-viable.)

4. The variable (i.e. operation and admin) components of standby rates or charges should be reasonable and proportionate to operating and admin costs for other kinds of connections.

5. Once set, standby rates should not be subject to material changes in cost to the LDG (other than, for example, CPI adjustments) during the term of financing a project, usually 15-20 years.

6. LDCs should ensure that one of the options available to an LDG customer is to contract for a maximum load, and be charged a standby rate or charge on the basis of that contracted maximum level, rather than on the full gross load. Financial penalties and load limiters can be deployed to ensure there is no "cheating" i.e. going over the contracted level.

7. No standby charges or rates should be applicable to small LD generators below a minimum breakpoint of approximately 1 MW. Although the design of standby charges or rates applicable to larger LDG projects (5 MW and over) where such charges are deemed necessary at all by the LDC, do not require any form of standardization and should be flexible enough to reflect site-specific circumstances, the standby charges or rates applicable to smaller projects (under 5 MW but greater than 1 MW) may appropriately be standardized using rules of thumb, to reduce complexity. Such charges or rates should be proportionate to the charges or rates applicable to an average of larger LDGs in similar circumstances.

8. A further principle can be used to ensure that standby charges continually encourage efficient operational decisions. Without compromising the above principles for setting the basic amounts of standby charges and rates, LDCs should also implement any standby charges in such a way that generators are motivated to operate more during peak hours, and to curtail production, if they choose to do so, during off-peak hours. This benefits the entire electrical system, reducing both capital and operating costs.

The above statement was prepared by APPrO as a summary of views expressed by stakeholders consulted in April and May 2013. Although it is a fair reflection of the general viewpoints, individual members of APPrO set their own policies independently and may differ on points of detail.

Without prejudice

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