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APPRO

ASSOCIATION OF
POWER PRODUCERS
OF ONTARIO

June 21, 2016

Ms. Kirsten Walli
Ontario Energy Board
2300 Yonge Street, Suite 2701
Toronto, ON
M4P 1E4

22 June 2016

Re: EB-2015-0363 Submissions of APPRO to the Staff Discussion Paper on a Cap & Trade Framework

Dear Ms. Walli

APPRO is pleased to provide the following submissions to the Board Staff's May 25, 2016 Discussion Paper on a Cap and Trade Regulatory Framework for Natural Gas Utilities.

Introduction

The Association of Power Producers of Ontario ("**APPRO**") is a non-profit organization representing Ontario's independent power producers and related businesses. Its 22 generator members produce ~50% of Ontario's electricity from clean and renewable resources including nuclear, co-generation, hydro-electric, natural gas, wind, wood waste, and solar energy. APPRO members build and operate power plants in Ontario, across Canada and elsewhere in the world. APPRO's membership also includes fuel suppliers and marketers, contractors, equipment suppliers, consultants, local distribution companies, service providers and financiers. APPRO's goal is to facilitate an economically and environmentally sustainable electricity sector in Ontario that supports the business interests of electricity generators, ratepayers and the provincial economy.

On May 18, 2016, Ontario passed the Climate change and Low-Carbon Economy Act ("**Climate Change Act**"). Ontario Regulation 144/16, ("**The Cap and Trade Regulation**") was issued on May 19, 2016. In response to the legislation and the

regulations, Board Staff (“**Staff**”) issued a discussion paper dated May 25, 2016 (“**Discussion Paper**”) that outlines a potential framework to implement the province’s Climate Change Act. In an accompanying letter of the same date, the Board provided opportunities for interested parties to make submissions on this Discussion Paper. APPrO welcomes the opportunity to provide these comments on the Discussion Paper.

Natural gas-fired generators are large electrical generators that use natural gas to produce power under a variety of commercial arrangements including base load facilities, combined heat and power plants, mid-merit plants (used for load following) and peaking units. For the most part, these plants respond to the fluctuating power demand in the province. For those plants that are dispatchable, the amount that these plants operate is a function of the aggregate demand in the province, as well as the competitiveness of these plants vis-a-vis other forms of generation. These operators make offers to sell their electricity to the Independent Electricity System Operator (“**IESO**”) based on their marginal operating costs. Some sell their electricity under contract to the Ontario Electricity Financing Corporation (“**OEFC**”). The fuel cost for these plants is a large portion of the marginal costs. The amount that these dispatchable plants operate can vary significantly from day to day, season to season, and year to year making forecasting their demand challenging.

APPrO Submissions

APPrO has had the opportunity to review Union Gas’ (“**Union**”) comments in a letter to the Board dated April 22, 2016 (EB-2015-0363). APPrO agrees with Union’s submissions and in particular:

- a) Timing is of the essence. If the framework is to be implemented as of January 1, 2017, it is critical that there must be clarity on the rates that will be in effect as of that date. There is much to do to put a framework in place and it is essential that gas-fired generators understand the rate structure that will be in effect so that these costs can be incorporated into their price offers to the IESO. Furthermore, this framework will be an essential consideration in contract amendments and negotiations with the IESO and OEFC. Contract amendment negotiations processes can be lengthy and complicated therefore understanding well in advance of January 1, 2017 not only the regulatory framework but also a price for compliance will be important to relieve investor and market anxiety;
- b) There must be transparency on the costs of carbon on customer’s invoice. Full disclosure of the carbon costs is required to properly evaluate plant improvements to reduce greenhouse gas emissions and to settle contractual requirements with the IESO and OEFC. APPrO recommends therefore that compliance costs be included as a specific line item in utility tariffs and on customer bills;
- c) It may not be practical to require utilities to file a 3 year compliance plan in 2017 for 2018 before any meaningful experience will be garnered on the initial 2017 plan. Both Union and its customers need to learn from the process before long term commitments are made;

- d) Initial compliance plans should be simple and easy to understand. These plans should also include sufficient consumer protection to ensure that simple plans do not lead to cost inefficiencies. Caution should also be exercised as the gas utilities will be large purchasers of allowances, and there is the risk that the market may initially be illiquid which could lead to higher carbon prices;
- e) APPrO shares Union's concern on the risk management aspects of the Discussion Paper;
- f) APPrO notes that Staff suggests that customer and facility related obligation costs be allocated on a volumetric basis. APPrO suggests that it is premature to make this recommendation until further information available from the utilities on the specific nature of the costs that will be incurred. For instance, costs of modifying a billing system and subsequently billing and collecting those amounts may be better suited to be charged on a customer basis rather than a volumetric basis¹;
- g) APPrO also notes that Staff indicates that utilities already prepare load forecasts². The utilities do not necessarily prepare load forecast for large volume gas-fired generators. APPrO submits that load forecasts that the utilities will have to prepare for this customer group should be completed in consultation with each of the large volume customers.

In addition to Union's comments, APPrO also believes that:

- h) There must be cost transparency by the utilities for both internal as well as external costs incurred in complying with the legislation;
- i) It is understood that major auctions will occur quarterly and the utilities may also periodically participate in the secondary markets. Weather and economic drivers could cause large demand variances quarter to quarter and year to year. This could result in large variations in the number of allowances that need to be acquired and further it could lead to volatility of the price of allowances. These factors could drive large deferral account balances. At any rate, adjustments that occur must only occur *prospectively*, i.e., variances must be rolled forward to be included in future periods. There cannot be any "one-time" adjustments or true ups representing past variances and customer activity. Generators make the commercial decision to operate based on their marginal operating costs. If a cost is restated after the fact, it is no longer a marginal operating cost but a "one-time" fixed cost. Ontario's current electricity market structure makes it difficult to recover this type of cost and therefore goes against the intent of the C&T program as it does not provide the appropriate price signal to the consumer. Any variances must be included in, or rolled forward, for computing and establishing the new rates for future periods. This is especially important for settlement of contracts between the IESO and generators which underpinned the significant investments in the electricity sector in order to reduce its carbon footprint.
- j) APPrO understands that the point of regulation for gas fired generators is the utility and that the utility is required to obtain the required allowances for generator

¹ Section 5.1.2

² Section 4.1.3

consumption. However, APPrO continues to believe that gas-fired generators should be treated in the same fashion as other large final emitters and be required to secure their own allowances, or alternatively at a minimum, have the option of voluntarily sourcing their own allowances.

- k) Finally, in EB-2015-0029 APPrO argued that because the Government of Ontario had announced its intention to introduce a cap and trade regime to regulate greenhouse gas emissions mandatory ratepayer-funded DSM programs for large volume customers (“**LVC**”) are not required as they will be directly mandated by the cap and trade system. Union agreed that its LVC customers “won’t need any incentives or encouragement” to implement energy efficiency measures once the cap and trade regime is in place, as “they’ll be legally obligated to reduce their...emissions”.³ APPrO submits that ratepayer funded DSM can be discontinued since cost effective emission reduction programs will be undertaken under the Ontario Cap and Trade program and the Ontario Climate Change Action Plan.

Sincerely,

A handwritten signature in black ink, consisting of a large, loopy initial 'D' followed by a series of connected loops and a long horizontal tail stroke.

David Butters
President & CEO

³ EB-2015-0029, Transcript Volume 4, page 96:2-14.