



APPRO

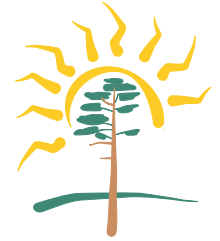
ASSOCIATION OF
POWER PRODUCERS
OF ONTARIO



Canadian District Energy Association
Association Canadienne des Réseaux
Thermiques



Distributed Generation
Industry Task Force



Ontario Clean
Air Alliance

October 10, 2006

Hon. Dwight Duncan
Minister of Energy
Queens Park
Toronto, Ontario

Re: Standard Offer for clean energy supply projects under 10 MW (“SOC”)

Dear Minister Duncan,

Our respective organizations have been working for more than a year on the development of procurement models that would bring forward a sizable quantity of under 10 MW gas fired and high efficiency cogeneration projects, having a range of well-known benefits to the system, within a standard offer format. We are writing at this point to reaffirm our view, and to confirm the Ministry’s willingness to provide further guidance to the OPA in the context of a “standard form” fuel risk mitigation mechanism for standard offer clean projects.

We believe it is well established that high-efficiency gas-fired distributed cogeneration power projects deliver substantial benefits to the system, industrial, commercial and “MUSH” sector customers, well beyond the economic savings. Some examples are:

- Depending on the characteristics of the thermal load they supply, they can, with some limitations, be dispatchable
- They are highly efficient, reducing overall emissions when compared against emissions from traditional thermal and electric projects, and help the Province move forward on its commitment to reduce dependency on coal-fired generation
- They reduce electrical system losses in transmission and distribution by placing generation directly at the load source, further reducing costs and emissions for others
- They can provide for the deferral of capital investments in distribution and transmission upgrades.

- They can reduce reliance on imported fossil fuels and electricity
- They improve system stability and help with the integration of less responsive sources of supply such as wind, likely demonstrating an overall improved availability for the Province's Standard Offer purchases of power.
- They can be brought on line relatively quickly
- They provide a range of economic benefits to their hosts and to the municipal jurisdictions within which they are located, often attracting municipal support, rather than opposition.
- They encourage innovation and technical development in an important sector of the economy.

It is undoubtedly with this kind of benefit in mind that the Ontario government included clean energy in the August 2005 letter to the Ontario Power Authority which created the Standard Offer Program, and authorized the Northern Ontario Heritage Fund to support internal generation in small Northern Ontario businesses.

It is generally accepted that without a mechanism to mitigate fuel risk for the OPA power purchases from SOC projects, development in this area will be significantly limited, with aggregate capacity well below the levels needed to make a significant contribution to Ontario's supply mix. While we are happy to see projects proceed when they can do so without fuel risk mitigation, we believe it would be a significant error and a source of lost supply opportunities to rely on that approach as the only model for small scale clean energy supply. After all, the larger clean energy supply projects required a form of fuel risk mitigation and are being provided same by virtue of the supply arrangements the Ontario Power Authority is establishing for larger clean and CHP type projects.

We have been working with the OPA, the IESO, the Ministry and others to enhance the appreciation of these issues, and believe that the matter requires direction and a decision in relatively short order. We understand the OPA will be releasing its recommendations in this matter within the coming weeks.

We trust that you are in agreement with us that fuel risk mitigation is necessary, and that it must be a priority for the OPA to establish a workable procurement process for high efficiency small scale CHP at the earliest opportunity. It is our view that fuel risk mitigation for SOC can be done in a simple way, which will result in relatively minimal administrative burden, and we have provided suggestions to the Ontario Power Authority in that regard.

With this in mind, we ask that you confirm your view that a standard offer with fuel risk mitigation is needed for high-efficiency clean energy supply in the near future, and that the OPA is mandated to develop a workable option in this regard.

We look forward to hearing further about your views on this matter, and hope to have the opportunity to discuss our views on SOC and what it needs, to add to the already long list of Ontario success stories your government has put in place.

It is certainly our intent to provide our professional advice and support to the, Ministry, the OPA, the IESO and others working in this area, as I think we have already demonstrated.

Many thanks for your time and attention to this matter,



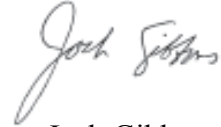
David Butters
President
APPrO, the
Association of
Power Producers
of Ontario



Bruce Ander
President
CDEA, the
Canadian District
Energy
Association



James Sidlofsky
Chair
Distributed Generation
Industry Task Force



Jack Gibbons
Chair
OCAA, the
Ontario Clean
Air Alliance

Cc Marion Fraser
Paul Shervill
Dave Goulding, Paul Murphy, Don Tench
Dr. Jan Carr
Cliff Poyton