

08 November 2010

Mr. Jim MacDougall,
Manager, Distributed Generation, Electricity Resources
Ontario Power Authority
Suite 1600, 120 Adelaide Street West,
Toronto, ON M5H 1T1

Dear Mr. MacDougall:

As members of Ontario's agri/food waste-based biogas industry, we oppose the 80% claw back of any Future Contract Related Product revenue as required in the OPA FIT Contract and strongly urge that this clause be removed as it conflicts with the intent to develop a green economy through the new Green Energy and Green Economy Act. We believe this clause will also stifle leading-edge research and innovation already employed by Ontario agri/food waste-based biogas operators with various Ontario universities and colleges. Furthermore, this clause is discriminatory to agri/food waste-based biogas as to our knowledge there are no future-related products derived from wind or solar power.

Further to our meeting on 13 October 2010, we believe the proposed new *Draft Guidelines for Future Related Products* do not address our concerns in this regard.

Regarding the List of Items 1-3 (Biological and Bio-based Products, Gaseous Products and Thermal Products - Not Considered Future Contract Related Products for Biogas), we believe these sections should be revised to include "*the application of all equipment, processes and procedures employed to utilize, process or convert all of the digestate (Item 1), gaseous materials (Item 2) and thermal products (Item 3) ...*"

With regard to Item 5 of the Draft Guidelines (Re: Non-Climate-Change Service Products), we believe this section (under the subsection: *payment from government programs for*) should be revised to include "*payment from government programs for the application of all equipment, processes and procedures employed to utilize, process, convert or otherwise administer any nutrient management related activities in regard to the digestate*".

Agri/food waste-based biogas has been Ontario's renewable energy orphan, yet provides more value-added benefit than other renewables. Unlike wind and solar power, agri/food waste-based biogas provides a steady, reliable, stable source of power, virtually 24/7/365 and does not create transmission line instability issues. In fact, agri/food waste-based biogas has the ability to increase power quality. By

comparison, wind and solar energy only produce their maximum capacity 25% of the time.

Need for Priority Connection to Ontario's Electrical Grid:

In addition, there are community-wide environmental benefits through the diversion of organic waste from landfills and municipal waste-treatment systems, as well as rural economic development potential that wind and solar power development do not provide. These benefits are clearly the intent of the new Green Energy and Green Economy Act and urgently call for agri/food waste-based biogas projects to be fast-tracked and moved to the front of the FIT process line.

The OPA's recently instituted Economic Connection Test (ECT) and more onerous connection process to local distribution companies has created significant challenges and financial distress for current agri/food waste-based biogas projects that are under construction or already constructed and ready to commence operation but cannot get approval to connect to the grid system. Most of these projects received provincial government funding support to be constructed but now sit idle. Other potential agri/food waste-based biogas proponents are being dissuaded from investing in similar operations because of this situation.

Required Action: Agri/food waste-based biogas projects should be fast-tracked and moved to the front of the FIT process line.

Critical to Ontario's agri/food waste-based biogas development is the further need by the OPA to urgently address the following issues:

Unlike wind, solar and landfill biogas, agri/food waste-based biogas has to create the fuel (biogas) that creates the energy. Agri/food waste-based biogas is not like wind and solar power where the fuel source (wind/sunrays) comes to the generator. Agri/food waste-based biogas has to collect the organic material, transport it across the farm, store it and process it to create the fuel (biogas) that creates the energy. Under the Nutrient Management Act, off-farm organic material has to be pasteurized before processed with on-farm organic material. All of this takes energy and equipment that needs servicing and repair or replacement from time-to-time, creating additional operating costs.

Unlike wind and solar power, agri/food waste-based biogas operations have to burn the biogas created in an engine that turns the generator to create the electricity and as we noted above, only agri/food waste-based biogas has the ability to generate a consistent amount of energy, virtually 24/7/365. The OPA FIT contract is for 20 years and by comparison, if you drove your car at a consistent speed of 100 km/hr, non-stop for 20

years, how many engines do you think you would burn out? How many cars would you have to replace?

It is our view that the OPA FIT program has not taken into account the true capital and operational costs associated with constructing and operating an agri/food waste-based biogas facility.

None of Ontario's current agri/food waste-based biogas projects or those about to commence operation were built solely on the FIT (or previous Standard Offer) program incentive – all received additional government funding support (mainly through OMAFRA) no longer available to new project proponents. Clearly this shows that the FIT incentive for agri/food waste-based biogas has not provided the necessary enticement for agri/food waste-based biogas development in Ontario. Therefore, for the OPA to think the incentive it offers for agri/food waste-based biogas also supports the development of future-related products is absurd. Further investment in research, technology and operational costs is needed to develop future related products.

Consumer Price Indexing (CPI): It is unreasonable for the OPA to assume the same inflationary factor (CPI) for wind and agri/food waste-based biogas projects. Wind is a free fuel source that comes to a wind turbine that has minimal moving parts. By comparison, agri/food-waste biogas has to collect the organic material, store it, transport it, process it and create the fuel (biogas) that in turn has to be burned in an engine to turn a generator to create the energy. Agri/food waste-based biogas facilities have many more moving parts and operational considerations, involving more system wear and tear and requiring more ongoing maintenance and repair than wind energy.

It is our understanding that the OPA used an 80-20% formula (capital vs. operating costs) for both wind and agri/food waste-based biogas and for the reasons we explain above, this is flawed rationale.

Required Action: Unless the CPI rate more accurately reflects true operating costs for agri/food waste-based biogas, we strongly believe that the current 20% CPI inflationary factor will lead to the demise of Ontario's agri/food waste-based biogas sector and the shut-down of existing agri/food waste-based biogas operations due to non-sustainability. A more realistic CPI rate today is 45% for agri/food waste-based biogas.

Reneging of RESOP Clause 6 (Transmission/Demand Charges): Under the previous RESOP (Standard Offer Program) it was recognized that agri/food waste-based biogas facilities require additional energy to create the power generated (as discussed above) and thus, the program accounted for farmers not being charged demand and transmission costs on the energy they required to operate the facility.

We understand OPA metering decisions made in favour of solar power unwittingly result in this action being a detriment to the agri/food waste-based biogas operators. Under the FIT Program, farmers now have to pay the demand and transmission costs for power they produce and require to use on-farm for energy generation. This metering decision is uniquely discriminatory against agri/food waste-based biogas operators.

Required Action: Clause 6 from the Standard Offer program should be reinstated.

Environmental Attributes/EcoEnergy Claw Backs: Under the FIT Program, the OPA claws back 50% of the federal ecoEnergy program incentive for co-generation systems and ALL environmental attributes (green credits).

Required Action: This clause should be removed along with the claw-back of environmental attributes. The claw back of all environmental attributes is particularly discriminatory against agri/food waste-based biogas because of the potential for additional, non-electrical related attributes (i.e. methane destruction credits) that none of the other FIT approved renewable technologies can produce.

Ontario's Agri/Food Waste-Based Biogas Potential:

After 15 years of Germany's experience with a renewable energy incentive program, today they have over 4000 agri/food waste-based biogas facilities producing over 1400 MWs of renewable energy – that's the equivalent of the average generation of almost 3 Ontario nuclear reactors. By 2020, Germany expects to generate 17% of its total power generation from agri/food waste-based biogas alone. By comparison, Ontario is hoping to double its generation from all renewables by 2025 (to 12%).

Today in Germany over \$1.5 Billion has been directly invested in agri/food waste-based biogas, creating over 10,000 direct jobs. By 2020, Germany expects over \$10.5 Billion directly invested in agri/food waste-based biogas, creating over 85,000 direct jobs. Ontario's agricultural base is similar to Germany so there is no reason why we can't duplicate the same experience in Ontario with proper incentives.

Need for Additional Incentives:

We understand that FIT incentive rates were based upon an anticipated 11% rate of return for renewable projects. However for the reasons we outline above, we do not believe the OPA had a clear understanding of the true capital and ongoing operational costs for agri/food waste-based biogas projects.

Required Action: Other jurisdictions, like Germany, have seen significant growth in their agri/food waste-based biogas sector because of additional incentives being offered

for the installation of new technology and facility upgrades, use of manure and energy crops and for cogeneration systems (capturing heat for other uses).

Ontario needs to provide additional incentives in this regard.

Summary

We strongly encourage the OPA to fast-track its FIT program review for agri/food waste-based biogas like it recently did for the solar sector and immediately remove the disincentives to agri/food waste-based biogas development outlined above.

We welcome the opportunity to arrange a tour of any of Ontario's existing agri/food waste-based biogas facilities so that you can see first-hand our industry's potential as *Ontario's only reliable renewable generator* and the value-added environmental benefits and rural economic development opportunities other renewables don't provide.

We look forward to hearing back from you in a timely manner in this regard.

Sincerely,

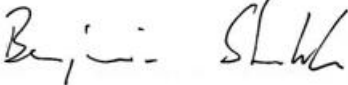

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