May 27, 2016

BY EMAIL & BY COURIER

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

Dear Ms. Walli:

**Board File No. EB-2015-0043 Ontario Energy Board Consultation**
**Rate Design for Electricity Commercial and Industrial Customers ("C/I Rate Design")**
**Energy Probe – Comments Staff Discussion Paper**

Pursuant to the March 21, 2016 release for comment of the Board staff paper entitled *Rate Design for Commercial and Industrial Customers: Aligning the Interests of Customers and Distributors*, Energy Probe Research Foundation (Energy Probe) is hereby providing its Comments in the EB-2015-0043 process for the Board's consideration.

Should you require additional information, please do not hesitate to contact me.

Yours truly,

David S. MacIntosh
Case Manager

cc. Peter Fraser, Ontario Energy Board staff (By email)
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**EB-2015-0043**

# Ontario Energy Board

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Sch. B, as amended;

**AND IN THE MATTER OF** a consultation by the Board with respect to Rate Design for Commercial and Industrial Customers: Aligning the Interests of Customers and Distributors.

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## Comments

## Energy Probe Research Foundation

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**May 27, 2016**

# Consultation on the respect to Rate Design for Commercial and Industrial Customers: Aligning the Interests of Customers and Distributors

## Comments of Energy Probe Research Foundation

### Background

On March 31, 2016, Board staff released for comment a Staff Discussion Paper entitled *Rate Design for Commercial and Industrial Customers: Aligning the Interests of Customers and Distributors*. Board staff invited interested stakeholders to assist by providing comments on this staff discussion paper.

The following are the comments of Energy Probe Research Foundation.

The Ontario Energy Board's (OEB) draft report on rate design for Commercial and Industrial Electricity Customers is – like its previous paper on decoupling in the residential sector – a step in the right direction. According to the OEB's discussion paper, "current distribution rate designs are not fully linked to distribution cost drivers." We believe that any redesign that better aligns the cost of service with the rates charged to customers – residential, industrial or otherwise – benefits Ontario's economy.

But our comments will primarily address the issues raised in "Section G – Credits for Distributed Energy Resources."

**Distributed energy could play a positive role in decentralized generation in Ontario**

Large industrial users that currently own and operate "behind-the-meter" generation assets could offer a substantial benefit to other electricity customers from all rate classes and in areas outside the local distribution network. The generation assets of large industrial customers (current and future) could be beneficial in a number of ways:

- They could sell their power to the local distribution network during times of peak demand when the provincial transmission network is nearing capacity.
- They could "self-power" their operations during times of peak demand and reduce overall demand on the local distribution network and avoid the high cost of peak power.

- The move to "behind-the-meter" generation could limit the need to upgrade the capacity of the entire distribution network (and possibly the transmission system).
- More self-generation will limit the need for large generation facilities such as nuclear and gas power plants.
- Power sales could be an additional source of income for large companies, enticing them to either maintain or expand operations in the province. Likewise, power consumers could be enticed to expand their Ontario operations, knowing they had alternate sources of supply.
- Behind-the-meter generators could become a viable business for local distribution companies who could sell this excess power on the province's wholesale market.
- More self-generation increases the market for private power and moves the province closer to a competitive generation sector.
- Small-scale self-generation assets can more quickly introduce technological innovation into the electricity sector by avoiding the costly and long-term investments of centralized assets such as nuclear plants, large gas plants and industrial wind turbines that typically "lock-in" a particular type of technology.

The OEB should limit its role in the trend towards distributed energy to acting as an economic regulator, not a policy maker. In a truly competitive environment both distributors and generators can negotiate deals that would benefit both parties. The OEB's role should be to ensure that the economic and financial viability of the energy sector is maintained and the interests of consumers are protected.

In some ways, the direction implied by the Board's discussion paper would limit the very large potential benefits of a decentralized electricity sector. Distributed energy should be seen as the first step in improving the economics of the entire electricity sector by offering large customers and LDCs more choice in purchasing energy.

Distributed energy allows local distribution companies to sign deals for output from behind-the-meter generators that could, potentially, be cheaper than generation from large facilities such as nuclear plants and industrial wind turbine farms. It could also be more flexible and cater more to customer demand. This generation would also be significantly less risky to build and the cost of getting it wrong – overbuilding the entire network – would be much smaller. In a decentralized market, local distribution companies would have an alternative to the monopoly of a centralized electricity sector.

Distributors might also open a new line of business by purchasing excess power from behind-the-meter generators and selling it on the provincial grid. LDCs, then, would play a greater role in the electricity sector by acting as a market participant.

Decentralized generators would also provide a competitive market price for power and send the appropriate signal to consumers that the grid is either over- or under-supplied.

A few comments in the Board's discussion paper seem to indicate that the Board views distributed energy as an area that would require further regulation. We believe that the opposite will be true. In one comment the Board noted that, "it may be possible to design underlying rates that avoid having special classes for distributed generation including rates that are appropriate for net metering for each rate class." The Board should have a limited role in setting rates in private deals between distributors and private generators, unless those deals pass undue costs onto other customer classes. The province's wholesale electricity market would, instead, ensure a fair and transparent price for generated power.

The Board rightly noted that sophisticated energy consumers – particularly those that have invested in generation assets – will understand that the value of any generation is dependent, in part, on location, availability and controllability. Distribution network operators will also fully understand the importance and value of those attributes. Contrary to the Board's comment that behind the meter generation "must be automatic or under the control of the distributor," the two parties can negotiate what their responsibility is under any negotiated contract and that may not include giving total control to the distributor.

The Board also noted that "prosumers" engagement with the electricity sector should lead to the creation of a system of "credits (or allowances)" to take advantage of the benefits of distributed energy. Such a system adds greater complexity to the distribution system. Instead, the Board should encourage distributed energy providers to negotiate deals with distribution companies who will be better able to compare the price of this power to that of the provincial market or the cost of upgrading the local network. Ultimately, it's in the interest of distribution companies to negotiate for the lowest cost power for their customers.

Energy Probe thanks the Board for the opportunity to present its comments.

**Respectfully submitted at Toronto, Ontario this 27th day of May 2016**

**Energy Probe Research Foundation**