



January 24, 2019

Via RESS and Courier

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, Ontario M4P 1E4

Re: Report of the Advisory Committee on Innovation to the OEB; Board File No.: EB-2018-0287

Dear Ms. Walli:

Hydro Ottawa Limited ("Hydro Ottawa") is pleased to provide these comments on the report submitted by the Advisory Committee on Innovation ("ACI") to the Chair of the Ontario Energy Board ("OEB").

I. Introduction

On November 22, 2018, the OEB published the report submitted by the ACI to the OEB Chair. The ACI was formed by the OEB in January 2018 with the mandate to identify actions the OEB could take to create an environment to support innovation that brings value to customers.

In its report, the ACI highlighted four broad actions that are expected to help support innovation in the provincial energy sector. Each of these categories of action is accompanied by a subset of recommendations that are germane to specific areas of OEB regulation and oversight. In addition, the ACI offers suggestions on the OEB's engagement with stakeholders on the implementation of the report's recommendations, and on the potential sequencing of implementation action.

On January 16, 2019, the OEB hosted a forum (hereinafter referred to as the "Stakeholder Forum"), during which the ACI Chair provided an overview of the report's recommendations and stakeholders were able to ask questions and provide comments.

II. Description of Hydro Ottawa

Hydro Ottawa is a regulated local distribution company ("LDC"), licensed by the OEB to serve approximately 332,000 customers in the City of Ottawa and the Village of Casselman. The company is wholly-owned by the City of Ottawa and governed by an independent Board of Directors.

As an electric utility whose rates and charges are subject to OEB regulation, Hydro Ottawa has a direct and substantial interest in the outcome of this consultation. The company will be significantly impacted by the implementation of any proposal(s) emerging from the ACI report.

Hydro Ottawa was also an active participant at the recent Stakeholder Forum. Where appropriate, Hydro Ottawa will make reference in these comments to remarks that were made during the forum.

III. Comments

As noted in the report (as well as in the OEB's *Strategic Blueprint 2017-2022*), the energy sector is in the midst of a major transformation, which is being driven by a unique confluence of factors and trends – i.e. evolving customer expectations, technological advancement, new business models, and shifts in public policy landscapes. This transformation is by no means a phenomenon that is exclusive to Ontario. Jurisdictions across North America and the world have been exploring (i) what this transformation will mean for key constituencies like consumers, utilities, third-party service providers, and public sector decision-makers, and (ii) how this transformation can (and should) play out in their particular regulatory, economic, and social contexts.

Against this backdrop, Hydro Ottawa welcomes the ACI's report. The company believes that the report can serve to set the stage for subsequent consultation and policy action by the OEB, and to help position Ontario's energy sector for success in the midst of historic transformation and transition.

In these comments, Hydro Ottawa focuses on the following: (i) the consultation process which is set to ensue; (ii) select recommendations in the ACI report which Hydro Ottawa believes warrant priority attention and action; and (iii) assorted recommendations in the report for which Hydro Ottawa wishes to offer specific feedback.

1. Consultation Process & Next Steps

Hydro Ottawa strongly believes that the OEB's approach to implementation and next steps will be critical to the overall success of this consultation. Hydro Ottawa urges the OEB to take the time necessary to ensure the consultation process is structured effectively.

Specific recommendations and requests from Hydro Ottawa in this regard are as follows:

- (i) **Board-level Direction:** Hydro Ottawa believes that it would be appropriate for the Board itself to provide some form of initial response to the report, including directional signals on the core objectives which the Board wishes to achieve, as well as on the optimal way forward for assessing and implementing the report's recommendations. Ultimately, the Board will be determining the scope and scale of which recommendations are adopted. The experience from flagship "utility of the future" and grid modernization consultations in other jurisdictions has shown that the upfront identification of clear objectives, expectations, and timelines by utility regulators is a key determinant of the ultimate success of such initiatives.¹
- (ii) **Key Characteristics of the Consultation Process:** The planned policy streams and consultations to come should be structured such that they are comprehensive, coordinated, inclusive, transparent, and executed under specific timelines.

¹ For example, in its initial order formally instituting the "Reforming the Energy Vision" proceeding, the New York Public Service Commission ("NY PSC") identified six central objectives to govern and focus its inquiry: (i) enhanced customer knowledge and tools that will support effective management of their total energy bill; (ii) market animation and leverage of ratepayer contributions; (iii) system wide efficiency; (iv) fuel and resource diversity; (v) system reliability and resiliency; and (vi) reduction of carbon emissions. NY PSC, Order Instituting Proceeding, Case 14-M-0101: Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision (April 25, 2014).

With respect to coordination, Hydro Ottawa sees a particular need for coordination between policy work streams emanating from the ACI report and the following: (i) OEB initiatives and consultations that are already underway (e.g. Commercial & Industrial Rate Design, RPP Roadmap); and (ii) various Independent Electricity System Operator (“IESO”) engagements (e.g. Market Renewal, Innovation Roadmap, Energy Storage Advisory Group, Grid-LDC Interoperability Standing Committee, Conservation Fund). In light of the numerous innovation-related activities underway at the OEB and IESO, Hydro Ottawa encourages the two agencies to collaborate on implementation activities, where appropriate, with the aim of finding synergies and efficiencies, avoiding duplication, and minimizing stakeholder fatigue.

- (iii) Generic Hearing: Hydro Ottawa wishes to echo the comments made by several participants at the Stakeholder Forum regarding the merit of a generic hearing serving as the optimal means for guiding this consultation process forward. A generic hearing would ensure the following: all interested parties are able to participate meaningfully in the next phases of work; stakeholders have the opportunity to interact directly with Board members and vice versa; a robust public record is established in a transparent and inclusive manner; and the OEB’s process fulsomely considers the broad spectrum of other initiatives inside and outside of the OEB with which this effort should be linked and coordinated.
- (iv) Reflecting Customer Interests: Hydro Ottawa agrees with the comments expressed during the Stakeholder Forum which underscored the imperative of ensuring that the interests and voices of customers are effectively reflected in subsequent rounds of this consultation.

2. Prioritizing OEB Action on ACI Recommendations

As a general matter, Hydro Ottawa encourages the OEB to provide sufficient rationale – both quantitative and qualitative – for why certain issues and opportunities should be granted priority status relative to others in the initial phases of the impending consultation. Such an approach will be critical to gaining buy-in from stakeholders around the integrity of the process.

In Hydro Ottawa’s view, there are three recommendations from the ACI report which merit priority attention. Of note, Hydro Ottawa observes that all of these recommendations align seamlessly with the principal strategic goals and objectives set forth in the OEB’s *Strategic Blueprint*.

- (i) Integration & Regulatory Treatment of Distributed Energy Resources (“DERs”): Hydro Ottawa is supportive of arguments which assert that the most dramatic evolution taking place in the electricity sector today is grid decentralization. The evidence supporting this conclusion is robust and expansive.

For example, in the *Ontario Planning Outlook*’s 10-year retrospective review of the state of the electricity system, the IESO highlighted the growth of embedded generation resources within distribution networks as a fundamental shift that had occurred in the profile of the provincial grid.² Similarly, in its enumeration of the key changes occurring across the electricity sector worldwide, the Massachusetts Institute of Technology’s (“MIT”) renowned *Utility of the Future* report listed the decentralization of power systems as a result of DER

² IESO, *Ontario Planning Outlook* (September 2016), p. 2.

integration as the pre-eminent development of recent years.³ More recently, in the 2018 version of its widely-read *State of the Electric Utility* survey, the U.S. publication Utility Dive found that concerns regarding policymaking on DERs ranked among the top two most pressing concerns for North American utility executives, second only to cyber and physical security.⁴

Here in Ontario, while the trends, challenges, and opportunities associated with the growth in DERs are generally well-known and recognized, the regulatory framework has not yet adapted to these developments – as the ACI report itself acknowledges. Moreover, it remains unclear as to what roles utilities are permitted and/or encouraged to play under Ontario's framework, as it relates to the integration and deployment of DERs. From Hydro Ottawa's perspective, this is problematic and concerning for several reasons – not the least of which is the fact that there are upwards of 800 embedded generation resources in its service territory whose Feed in Tariff ("FIT") and MicroFIT contracts are set to expire over the coming years. Under the existing regulatory framework, there are no tools available to allow for the broader coordination and optimization of these resources, once their current contracts expire.

It is arguably time for Ontario to play catch-up with other jurisdictions in North America that have made considerable progress in addressing the wide array of issues relevant to DER use and integration. The forthcoming consultation on the ACI report presents a tremendous opportunity to tackle this urgent challenge and to customize a system of DER rules, regulations, and ratemaking that is uniquely suited to Ontario's needs and ensures that these resources are optimized for the benefit of current and future ratepayers, as well as for local and bulk power systems.

It is therefore appropriate and advisable for the OEB to grant priority status to the DER-related recommendations in the ACI report.

- (ii) Utility Remuneration: Hydro Ottawa agrees with the ACI report's findings that the time is ripe for changes to Ontario's model for utility revenue. To be sure, Hydro Ottawa is not advocating for the wholesale, overnight dismantling of the existing paradigm. Rather, it is the view of Hydro Ottawa that grounds exist for undertaking discrete, targeted reforms as an initial step.

To begin, if the OEB ultimately chooses to prioritize the ACI's recommendations pertaining to DERs, then an essential companion priority must be the examination of utility remuneration as it relates to the use of and investment in DERs. This issue has the potential to cut more than one way for utilities.

For example, there may be an appetite among stakeholders and the OEB to carve out space for utilities to serve as platform providers which can integrate and orchestrate DERs through the administration of distribution-level electricity markets. In this scenario, it will be necessary to recognize the value of the function being discharged by the platform provider

³ MIT Energy Initiative, *Utility of the Future* (2016), p. 2.

⁴ <https://www.utilitydive.com/library/2018-state-of-the-electric-utility-survey-report/>.

by enabling the utility to achieve earnings through distribution platform service revenues.

Conversely, in certain scenarios, the most cost-effective and customer-centric option may be the compensation of DER resources by utilities. Ideally, the appropriate incentives would be in place to induce utilities to undertake this operational expense. To quote once again from MIT's seminal report, "[u]tilities should be free to find the most cost-effective combination of conventional investments and novel operational expenditures (*including payments to DERs*) to meet demand for network services at desired quality levels" (*emphasis added*).⁵

The imperative to right-size and equalize incentives for capital and operational expenditures is likewise elucidated through the example cited in the ACI report of the movement towards software-as-a-service solutions. This example is a compelling one and is one which is directly relevant to Hydro Ottawa's circumstances. The benefits of the migration to cloud-based software are numerous: cost savings; delivery of enhanced customer experience; increased reliability, flexibility, and security of services; ability to keep pace with technological innovation; and ability to perform upgrades easily with minimal business disruptions. However, under the current revenue model, a disincentive arguably exists for utilities to make investments in cloud-based software, as such software is typically accounted for as an operational expense, whereas on-premise solutions are accounted for as a capital expense.⁶

In light of the significant interplay between the system of remuneration for utilities and many of the most promising opportunities for innovation in the sector, Hydro Ottawa believes that utility remuneration should be assigned a top ranking in the OEB's scoring of priority actions.

- (iii) Simplified Regulation: Hydro Ottawa strongly supports the ACI report's call for greater efficiency, simplification, and timeliness in OEB regulation and oversight. Hydro Ottawa respectfully observes that this area of focus has been a recurring refrain from stakeholders in recent years, including through formal submissions to both the OEB and the Government of Ontario. To its credit, the OEB has acknowledged a need for regulation that is "fit for purpose" through such prominent channels as its *Strategic Blueprint*. However, the pace of progress and the scope of existing regulatory and reporting burdens remain a concern for many stakeholders.

It seems virtually assured that the journey towards adoption of the ACI's recommendations will be one that is fraught with complexity, challenges, and delays. Accordingly, it seems only appropriate that this journey is accompanied by a complementary effort to alleviate undue constraints and burdens in the existing regulatory framework. In turn, this will free-up resources and energy that can be more effectively deployed in support of the push for unlocking greater innovation in the sector.

⁵ MIT Energy Initiative, p. 151.

⁶ For additional insights on this topic, Hydro Ottawa commends the following resources for the OEB's reference and review: U.S. National Association of Regulatory Utility Commissioners' [Resolution Encouraging State Utility Commissions to Consider Improving the Regulatory Treatment of Cloud Computing Arrangements](#) (November 2016) and Deloitte's report on [Capitalising Your Cloud](#) (January 2017).

3. Comments on Other ACI Recommendations

- Recommendation 1D – Hydro Ottawa sees merit in re-examining regulatory restrictions on utility business activities and in opening-up the Affiliate Relationships Code (“ARC”) for review. The current version of the ARC has not been re-visited in approximately nine years. In some ways, it is arguably the artifact of a different era (or if nothing else, of the pre-Renewed Regulatory Framework era). Accordingly, there will likely be value to be gained by examining the ARC and other restrictions on utility business activities with a fresh perspective – namely, one that takes into consideration the gamut of evolutions that have unfolded across the sector since the ARC was last updated.
- Recommendation 2D – With respect to the establishment of funding mechanisms to encourage utility innovation, Hydro Ottawa would commend for the OEB’s consideration the research performed by Concentric Energy Advisors (“Concentric”) on this topic. For example, in January 2018, Concentric prepared a report entitled *Funding Innovation on Behalf of Electricity and Natural Gas Consumers*. The report catalogues the trend throughout North American and international jurisdictions towards customer funding of innovation in both the natural gas and electricity sectors, cites the rationale relied upon by policy makers and regulators, and finds that regulators are increasingly of the view that the short- and long-term benefits justify the costs of demonstration projects.
- Recommendation 3A – Hydro Ottawa acknowledges that part of the underlying impetus for this recommendation is the desire to replicate the types of open access requirements that are in place for the high-voltage bulk transmission system, with an eye towards animating markets at the distribution level. In order for any form of open access architecture to be instituted for distribution networks, however, it must be recognized that several important considerations and challenges will need to be addressed effectively. These include, but are not limited to, the following: clearly defining what kind of information distributors will be required to publish and for what purpose; how and under what conditions disclosure can take place; what safeguards need to be established, especially for purposes of protecting any customer data and confidentiality; and what represents a fair cost allocation model for any such publication system, including appropriate cost recovery for utilities.

IV. Conclusion

Hydro Ottawa appreciates the opportunity to provide comments on the ACI report, and respectfully requests that any subsequent action taken by OEB be consistent with the comments set forth herein.

Hydro Ottawa looks forward to remaining engaged in this important consultation.

Sincerely,

Original signed by Gregory Van Dusen



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