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**VIA Email**

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**Re: Report of the Advisory Committee on Innovation  
Ontario Energy Board File No.: EB-2018-0287  
Independent Electricity System Operator – Comments**

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Attached are the Independent Electricity System Operator's (IESO) comments in response to the Report of the Advisory Committee on Innovation.

The IESO looks forward to working with the Ontario Energy Board and stakeholders in the examination of approaches to improve electricity system cost-effectiveness and reliability in Ontario.

Sincerely,



Devon Huber  
Senior Manager, Regulatory Affairs

## **IESO response to the Advisory Committee on Innovation - Report to the Chair of the Ontario Energy Board**

On November 22, 2018, the Ontario Energy Board (OEB) issued a letter inviting stakeholders to submit written comments on the recommendations set out in the Advisory Committee on Innovation (ACI) Report to the Chair of the Ontario Energy Board (Report) to help inform the OEB's regulatory policy priorities, preliminary sequencing and scoping of specific initiatives to develop regulatory reforms.

The IESO is pleased to provide its comments to the OEB on the recommendations set out in the Report. The IESO supports the OEB's examination of potential approaches to enable innovation that leads to improved electricity system cost-effectiveness and reliability for the people of Ontario. The IESO looks forward to working with the OEB to coordinate efforts in this area.

In 2018, the IESO undertook the development of an Innovation Roadmap to understand and prepare for the potential changes, challenges and opportunities facing the IESO and broader electricity sector. Developed through an open engagement process with the participation of over 100 organizations and 200 individuals, the Innovation Roadmap sets out priorities for learning, capability building and enabling the innovation of others (in IESO-administered markets) to ensure that the IESO can continue to deliver on its mandate to provide a cost-effective and reliable electricity system into the future.<sup>1</sup> The comments below reflect this mandate and the input IESO heard through the development of the Innovation Roadmap, and other consultations with stakeholders.

*1. A regulatory environment that supports competitive markets will help to ensure the most cost-effective outcomes for ratepayers*

The IESO supports priority being given to efforts that allow increased competition to deliver the electricity products and services needed by Ontario homes and businesses. As demonstrated by the Benefits Case Assessment of the Market Renewal Project a more competitive electricity marketplace will reduce costs for ratepayers and foster

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<sup>1</sup> Innovation Roadmap: <http://www.ieso.ca/en/Sector-Participants/Engagement-Initiatives/Engagements/Innovation-Roadmap>

innovative solutions by sending price signals that reflect real-time system needs and conditions.<sup>2</sup>

*2. Potential changes to restrictions on utility business activities should consider implications for system cost-effectiveness (local and bulk level), reliability, customer choice and bulk-level markets*

The Energy Transformation Network of Ontario (ETNO) is currently developing a paper to look at potential structural options for Ontario's electricity system in the context of a potential high-distributed energy resources (DERs) future. The paper will examine how the potential allocation of accountabilities at the local level (e.g. reliability coordination, system operation, market administration, resource ownership) might impact on a number of principles such as system cost-effectiveness, market efficiency, reliability and consumer choice. This work can help inform a re-examination of the regulatory restrictions on utility business activities.

*3. Prioritize the removal of barriers to competition in Ontario's electricity markets*

A regulatory environment that allows for open and fair competition to provide electricity products and services should result in the best long-term cost outcomes for Ontario ratepayers.

Efforts should concentrate on removing barriers which limit or restrict market participation from existing and new parties in order to enable a greater number and type of resources to compete to provide the electricity products and services Ontario needs now and in the future. For example, by making information about system needs and capabilities at the distribution level widely available, the OEB can help give solution providers access to information that will enable them to develop innovative new products and services to address system needs, make decisions about where and how to invest in Ontario, enable increased competition in the IESO-administered markets and provide the IESO with greater visibility into local conditions to inform system planning. The IESO would welcome the opportunity to coordinate the OEB's efforts on issues related to data and system operations through the Grid-LDC

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<sup>2</sup> The Brattle Group, A Benefits Case Assessment of the Market Renewal Project, April 20, 2017: <http://www.ieso.ca/en/Sector-Participants/Market-Renewal/Overview-of-Market-Renewal>

Interoperability Standing Committee – which the IESO convenes as a forum for LDC and IESO coordination on issues related to system operation.<sup>3</sup>

In December 2018 the IESO released a report, “Removing Obstacles for Storage Resources in Ontario” which sets out market, regulatory and policy barriers that prevent the fair competition of storage in Ontario’s electricity markets.<sup>4</sup> This report was developed with extensive input from the Energy Storage Advisory Group (ESAG). The IESO will seek to work with the OEB on a work plan to address the identified regulatory and market barriers in a coordinated, timely manner.

#### *4. Leverage and coordinate innovation efforts*

By coordinating efforts within Ontario’s electricity sector in support of improved cost-effectiveness and reliability for ratepayers, the OEB, the IESO and others can make efficient use of resources such as stakeholder and staff time while highlighting areas where integrated regulatory, market and policy efforts are necessary. As indicated above, the IESO currently has a number of open, active engagement forums through which this coordination can occur on a number of key issues. A few key areas for potential coordination are highlighted below.

#### ACI recommendation: timely funding mechanisms that encourage utility innovation

The IESO’s innovation fund (formerly the Conservation Fund) provides funding to test and evaluate the potential for commercially-viable demand-side electricity solutions (new technologies, practices products or services, business models, policy and regulatory options) in the Ontario marketplace. With open, inclusive eligibility criteria the fund creates a level playing field for utilities, not for-profits, private sector entities and others to access funds to evaluate innovative solutions. By requiring participants to contribute a minimum of 25-50% of project costs, the fund ensures risk is shared between ratepayers and project proponents. IESO would welcome the opportunity to talk with OEB staff about opportunities to coordinate fund participation to test and understand potential regulatory solutions identified through the OEB’s recently launched Innovation Sandbox.

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<sup>3</sup> Grid-LDC Interoperability Standing Committee: <http://www.ieso.ca/en/Sector-Participants/Engagement-Initiatives/Standing-Committees/Grid-LDC-Interoperability-Standing-Committee>

<sup>4</sup> IESO report: [Removing Obstacles for Storage Resources in Ontario](#), December 19, 2018

ACI recommendation: establish a way to ensure DERs can be compensated for their services commensurate with their value while paying their appropriate share of system costs

The IESO is currently engaged in a number of demonstration projects with a variety of private sector, institutional and utility stakeholders to understand how DERs might be compensated as alternatives to traditional distribution and transmission assets in a way that realizes the local value of these resources and does not result in unintentional consequences for the efficiency of the IESO-administered markets. The IESO welcomes the opportunity to share ongoing lessons from these projects with the OEB to inform regulatory considerations.

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