

January 25, 2019

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St., Suite 2700
Toronto, ON, M4P 1E4

via RESS and Courier

Dear Ms. Walli:

**Re: Advisory Committee on Innovation Report
Board File EB-2018-0287**

In January 2018, the Ontario Energy Board (“OEB” or “Board”) convened the Advisory Committee on Innovation (“ACI” or, the “Committee”) to assist the OEB in sharpening its focus on enhancing efficiency, cost effectiveness, innovation and value for electricity customers. The Committee’s focus was to identify actions that a regulator can take that will support and enable cost effective innovation, grid modernization, and consumer choice. The Committee held a series of meetings from February to September, 2018 to discuss these issues and develop recommendations. The Committee relied on input from its members, as well as external studies and reports. Recommendations developed by the ACI were to be provided directly to the Chair of the OEB.

On November 21, 2018, the ACI provided its Report to the Chair of the OEB (the “Report”) with its recommendations. The Report was also released to stakeholders and the public. The OEB then hosted a stakeholder forum on January 16, 2019 at the Board’s offices, and invited written submissions by interested parties by January 25, 2019.

The Group of Large Distributors (“GoLD”) is pleased to offer comments on the ACI Committee’s Report. The GoLD consists of Alectra Utilities Corporation, Hydro One Networks Inc., Hydro Ottawa Limited, and Veridian Connections Inc.

A. SUMMARY OF KEY MESSAGES & RECOMMENDATIONS

The GoLD encourages the Board to prioritize its subsequent actions around the following areas of focus from the Report:

- DER Integration,
- LDC Business Models & Activities, and
- LDC Remuneration

In addition, the GoLD urges the Board to utilize alternative means and tools to administer consultation processes going forward, rather than those that were previewed during the recent stakeholder forum. This is addressed in section B.3 of this submission.

B. COMMENTS

OEB Staff invited interested parties to provide comments and responses to three questions that were posed with the Board's letter releasing the Report on November 22, 2018. The three questions were as follows:

1. What actions should be the highest priority for the OEB?
2. What interdependencies should be considered for planning and sequencing the OEB's next steps regarding further policy development and consultations?
3. Are there any gaps or complementary areas of inquiry that need to be considered?

The GoLD offers its views on each of these below.

By way of context setting, the GoLD notes that it is already experiencing changes taking place in the industry, first hand. At the heart of enhancements to innovation in Ontario, will be better outcomes for customers. Technology advancements are enabling customers to have greater insight into their energy usage and empowering them with greater choice in how their energy is produced, delivered, and consumed. Improved choice and service offerings hold the potential to reduce customers' costs directly.

At the same time, new technologies also: 1.) change grid management dynamics; 2.) introduce the potential for asset deferment and the risk of stranding assets; and 3.) create a need for consistent quality and standards that must be managed. In this environment, distribution grids will serve as the market hub where local generation can be more efficiently and effectively generated and consumed within very local boundaries. Power supply, power quality, reserves, interruption frequency and duration, and total system costs, in the form of both asset deferment and stranded assets, must all be accounted for and planned for in this energy market transformation.

For this innovative future to occur, the energy sector needs a clear, predictable, efficient, and transparent regulatory system. It is critical that the market and stakeholders understand policies, objectives, and are free to work towards intended outcomes with as few barriers as possible. As such, regulatory flexibility and adaptability will be imperative.

The GoLD's comments are informed by the unique perspective which distributors bring to the energy and environmental landscape in Ontario. Distributors are the frontline in customer contact and customer relationships, bring technical expertise, have the ability and duty to plan at a system wide level, and have patient, long term capital funding mechanisms. These are the critical elements that will deliver innovation and technological change while doing so in measured, appropriate, and cost-effective ways.

1. Key Priorities for the OEB

While the ACI Report provides a good basis for initiating dialogue and focusing on key issues, the GoLD looks forward to deeper discussions supported by empirical evidence and cost/benefit analyses. In the pursuit of driving greater customer value, GoLD members have identified priority areas critical for success, including areas such as DER integration, LDC business models, and utility remuneration. In addition, the GoLD believes that the Board would benefit by articulating a more robust path for consultation on these matters than that which has been presented by Board Staff to date. The GoLD addresses its comments in regard to process steps in response to the third question (i.e. identified gaps), but does wish to signal its view that it should certainly be considered a priority issue for the Board to address.

i. DER Integration

The integration of DER into distribution system operations is of paramount concern. Understanding the context in which DER will be incorporated will form the basis for determining how to view the customer value proposition. Specific areas that require consideration include, but are not limited to the following:

- Defining technical requirements or limitations
- Customer connections policies
- Valuation of grid impacts

This discussion must also include an examination and understanding of roles and responsibilities of all market participants, since distributors should have the opportunity to implement DER solutions. Among the recommendations in the ACI Report is the need for transparency and sharing of information by distributors with other market participants. For example, recommendation 1.A, in the report indicates the following:

However, consistency within and among utilities can make it less cumbersome for service providers to do business in Ontario. Transparency about how connection costs are determined can create more certainty for DER and other projects.¹

Further on in the Report, recommendation 3.A speaks to encouraging market-based solutions and customer choice:

Transparency of distribution system characteristics and capabilities can also support efficient customer and market-led solution deployment. The value of

¹ Advisory Committee on Innovation: Report to the Chair of the Ontario Energy Board, November 21, 2018, p. 6

resources can be quite different depending on where they are located on the network and when they are used.

As such, it will be important to clearly define the nature of the information that distributors may be required to provide; under what conditions; at what cost; and who will bear such cost. Importantly, the nature and use of such information sharing and transparency must consider the security of information exchange, and also respect the privacy and confidentiality of the information.

Elaboration on standards of service and grid and distribution system operations is also required. Customer expectations should be managed regarding the following: pricing; rate structures; service reliability; interruptions of supply; and equipment failures.

Distributors continue to make investments in the distribution system. The dialogue around the socialization of benefits to all ratepayers must include how to deal with and avoid stranded assets. A coordinated implementation of DERs may be necessary to ensure a measured implementation, without a detrimental impact to the distribution system and the customers that remain.

ii. LDC Business Models & Activities

The GoLD believes that alternative business models for utilities should be examined. Such review should include an examination of the revenue and cost streams associated with each. In particular, advancing innovative solutions in Ontario would benefit from a closer examination of each of the following items:

- Consider allowing distributors to invest in ‘grid-edge’ or behind the meter infrastructure
- Re-examination of the Affiliate Relationship Code (“ARC”) and other business restrictions

Grid-Edge Investment: While some participants at the ACI Stakeholder Session were focused on the opportunity for third parties to integrate their DER solutions, the GoLD observes that at present there are limited means available to distributors to permit investment and integration of such technologies. The ability to integrate DER solutions into distribution system planning is clouded with restrictions and/or uncertainty. Distributors should be permitted to be both facilitators of and investors in DER. For market transformation to occur, it would be best if distributors were at least neutral from a revenue perspective to facilitate the implementation of DERs and the resulting market transformation. The GoLD’s view is that the Board should be clear and purposeful in allowing utilities to engage higher value added customer service through grid-edge investment.²

² The GoLD notes that Section 71 of the OEB Act permits activities that “would assist the Government of Ontario in achieving its goals in electricity conservation, including services related to,

(a) the promotion of electricity conservation and the efficient use of electricity;
(b) electricity load management; or

ARC and Business Restrictions: The review of the ARC is a central issue for distributors. The ARC was first developed in 2002, at the time of market opening. It was developed in the context of a very different market design than that which exists today. Further, it was last reviewed in 2008³, prior to the development of the OEB's Renewed Regulatory Framework. The ARC should be reviewed in the context of activities that could or should be undertaken by distributors. Further, in the face of an evolving sector, distributors are inhibited in their ability to provide customers with greater value options and services that are facilitated through the implementation of DERs within their system planning and operations functions through limitations in the OEB Act.

iii. LDC Remuneration

The GoLD believes that a review of distributor remuneration is also necessary, in light of the potential for ongoing shifts in the nature of investments made by distributors, customers, or third parties (as discussed above). As the Report identifies, under the current framework distributors are motivated to continue to undertake traditional capital investment solutions.

*Without a change in the model for remuneration there is limited incentive to change from the past pattern despite the availability of new options that might provide the best long-term value for customers.*⁴

One way or another, the costs and benefits to the distribution system as a result of DER integration needs to be examined and understood by all parties. These costs and benefits of DER should be allocated in ways that are fair to existing ratepayers and recognize the potential impact to the distributor's business model and operations. As the Committee highlighted in their report:

*A key regulatory consideration will be how best to allocate the benefits of a third party solution between a utility and its customers. This will be particularly important when the solution involves the utility procuring the services of a third party that displaces an equivalent or more expensive investment by the utility.*⁵

2. Interdependencies to Consider

The GoLD suggests that there are several interdependencies that should be managed as the Board moves forward with its investigation into frameworks and models that support innovation.

(c) the promotion of cleaner energy sources, including alternative energy sources and renewable energy sources. 2004, c. 23, Sched. B, s. 12.”

³ EB-2007-0662: Amendments to the Affiliate Relationships Code for Electricity Distributors and Transmitters, May 16, 2008

⁴ Advisory Committee on Innovation: Report to the Chair of the Ontario Energy Board, November 21, 2018, p. 10

⁵ Ibid., p. 11

Most notably, there are significant undertakings currently underway by both the government and the Independent Electricity System Operator (“IESO”), as well as the OEB itself, that may have a material impact on future policy development by the OEB.

Government: The government is currently investigating policies to promote efficiency, modernization, and innovative energy solutions to drive down costs for ratepayers. In particular, the government has signaled its intent to manage or reduce industrial rates. The government is also interested in promoting low or zero emissions technologies in order to reduce greenhouse gases. Furthermore, the government is likewise reviewing the Conservation and Demand Management (“CDM”) file to determine its future beyond the current framework, which continues until 2020.

IESO: The IESO is undertaking its ‘Market Renewal Project’ that will fundamentally re-design the structure of Ontario’s electricity market and is heavily focused on the integration of DER.

OEB: Among the OEB’s current policy initiatives is a review of Commercial and Industrial rate design. This initiative includes a review of standby and bypass rates and distributor compensation as well. This review may impact, or be impacted by, future direction on the deployment of innovation. The OEB is also examining an RPP Roadmap, with several trial initiatives underway. The formulation of ‘commodity’ pricing will have direct links to potential adoption and progress towards innovation and market transformation.

The GoLD is unclear as to the expected interplay among these policy items and initiatives, and as to how they will be coordinated. The GoLD believes the Board must consider each of these initiatives as it undertakes its comprehensive review on innovation.

3. Potential Gaps

The GoLD believes that the Board should give greater consideration to the policy development path for this initiative. At the ACI Stakeholder Session, OEB Staff described their proposed consultation framework. As the GoLD understands, the current process will result in a Board Staff scoping paper by spring, 2019. This is then expected to result in several different policy streams and consultations, each led by a Staff paper followed by comments from interested parties, and ultimately a Board decision. In the GoLD’s view this is not appropriate for the level of engagement and importance of needed policy development. Notably, the GoLD is concerned that the current approach is not sufficient to generate the input and interaction that are required. It is also the GoLD’s estimation that the current process will not result in any outcomes until late 2020, at the earliest.

The GoLD requests the Board consider either the use of a generic proceeding and/or a Federal Energy Regulatory Commission (“FERC”)-style Technical Conference. The OEB and interested parties are familiar with generic proceedings. They have been used in the past for policy development purposes, for example, in the Cost of Capital Review proceeding and in the Natural Gas Forum. This proceeding should include several opportunities for parties to interact

directly and comprehensively. The process should be open, transparent, and inclusive. Interested parties (i.e., customer representatives, distributors and third parties) should be able to participate and engage directly with the Board Staff, and each other. Most importantly all parties should be able to directly engage with Board members. Process steps can include submissions or remarks, technical conferences, targeted question and answer sessions, arguments, and a clear and direct Board decision to directly address the issues and guide future action.

C. CONCLUSION

The GoLD appreciates the opportunity to provide comments on ACI Report and looks forward to next steps to be announced by the Board in due course.

If you have any questions with respect to the above, please contact the undersigned.

Sincerely,

Original signed by Indy J. Butany-DeSouza

Indy J. Butany-DeSouza, MBA
Vice President, Regulatory Affairs
Alectra Utilities Corporation

Indy J. Butany-DeSouza
Alectra Utilities Corporation
(905) 821-5727
indy.butany@alectrautilities.com

George Armstrong
Veridian Connections Inc.
(905) 427-9870 x2202
garmstrong@veridian.on.ca

Gregory Van Dusen
Hydro Ottawa Limited
(613) 738-5499 x7472
GregoryVanDusen@hydroottawa.com

Frank D'Andrea
Hydro One Networks Inc.
(416) 345-5680
frank.dandrea@HydroOne.com