

ONTARIO ENERGY ASSOCIATION

Submission on the Advisory Committee on Innovation Report

JANUARY 25, 2019

To shape our energy future for a stronger Ontario.



ABOUT

The Ontario Energy Association (OEA) is the credible and trusted voice of the energy sector. We earn our reputation by being an integral and influential part of energy policy development and decision making in Ontario. We represent Ontario's energy leaders that span the full diversity of the energy industry.

OEA takes a grassroots approach to policy development by combining thorough evidence based research with executive interviews and member polling. This unique approach ensures our policies are not only grounded in rigorous research, but represent the views of the majority of our members. This sound policy foundation allows us to advocate directly with government decision makers to tackle issues of strategic importance to our members.

Together, we are working to build a stronger energy future for Ontario.

The recommendations contained in OEA papers represent the advice of the OEA as an organization to the provincial government. They are not meant to represent the positions or opinions of individual OEA members, OEA Board members, or their organizations. The OEA has a broad range of members, and there may not always be a 100 percent consensus on all positions and recommendations. Accordingly, the positions and opinions of members and their organizations may not be reflected in this report.

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INTRODUCTION

The Ontario Energy Association (OEA) commends the Ontario Energy Board (OEB) for creating the Advisory Committee on Innovation (ACI) and welcomes the ACI Report as a first step and opportunity to discuss reforms that foster innovation that ultimately benefits customers. The OEA also welcomes the opportunity to provide input to the ACI Report.

The OEA's submission on the ACI Report focuses on the three questions posed by the OEB in its November 22, 2018 letter to stakeholders:

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 OEA's submission is intended to help inform the OEB's ongoing regulatory policy priorities and preliminary sequencing and scoping of specific initiatives to develop regulatory reforms related to the ACI Report's recommended actions.

The OEA looks forward to participating in future consultations related to the OEB's initiatives related to the ACI Report, following the release of the OEB's scoping paper in the spring of 2019.

SUBMISSIONS

A. Prioritization and Process

At a high level, the OEA is of the opinion that the following areas should be a high priority for the OEB:

1. Actions related to the integration of distributed energy resources (DERs);
2. Utility compensation; and
3. A review of the Affiliate Relationships Code.

Beyond these priority areas, the OEA would require further analysis and information to properly assess which and how the recommended actions in the ACI Report should be prioritized. The OEA recognizes that the OEB's resources are not unlimited. Therefore, prioritization should be informed by weighing estimates of costs and benefits of potential actions against the expected resources required from the OEB and sector participants to develop and implement a given solution.

Outside of the "potential regulatory touchpoints" (ACI Report, Table 1) and the "Indicative Timeline" (ACI Report, Figure 1), the OEA would like to see additional implementation details for the recommended actions, to better allow us to provide feedback into the process and priorities. For example, the OEA would like to request the following details:

- What specific regulatory changes are required to bring about desired changes? (e.g., Sections of the Distribution System Code; Distribution Utility License Requirements)
- What are the specific timelines and milestones for reviewing, consulting and making regulatory changes?

The OEA expects that prioritization of the ACI's recommended actions be made with a methodology and criteria that are transparent, proportionate, consistent, involve inclusive stakeholder input, and completed on time. To that end, the OEA recommends that the OEB hold generic proceedings and other in-person forums to fully engage stakeholders through real-time dialogue and exchange of ideas.

B. Co-ordination with the Independent Electricity System Operator

There are many interdependencies for the OEB to consider for planning and sequencing next steps. An important interdependency is action being undertaken by the Independent Electricity System Operator (IESO). The IESO is involved in many initiatives that overlap with the OEB's innovation initiatives, such as developing an innovation roadmap¹, continuing to proceed with its Market Renewal project, and examining reducing obstacles for storage.²

For example, the IESO has stated that their innovation roadmap "will establish priorities for learning, capability building and the removal of barriers within IESO's scope of accountability to the innovation of others in order to support improved system reliability, cost effectiveness and efficiency, and other benefits for the people of Ontario."

Another example is the IESO's recent report *Removing Obstacles for Storage Resources in Ontario*. This report acknowledges that the IESOs work in this area must be coordinated with OEB initiatives. Regulatory alignment with other jurisdictions is another consideration, for example, the Federal Energy Regulatory Commission's (FERC) Order 841 requires system operators to revise their tariffs to ensure fair treatment energy storage resources.

The OEA expects that the OEB and IESO are collaborating and coordinating these initiatives to ensure that reforms are made efficiently, that the two organization do not unintentionally work at cross-purposes, and that stakeholders can effectively and efficiently participate in both initiatives, especially in cases where there is overlap between processes.

C. Utility Remuneration and Customer Rate Structures

The way in which utilities are remunerated and how customers pay for utility services and other energy costs will exercise a significant influence on how both utilities and customers approach and incentives to undertake innovative activities.

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

² <http://www.ieso.ca/en/Sector-Participants/Engagement-Initiatives/Engagements/Energy-Storage-Advisory-Group>

To this end, the OEA believes that the OEB must consider its next steps with regard to its ongoing initiatives related to rate design for commercial and industrial customers³, the commodity rate pilots being undertaken as part of the Regulated Price Plan Roadmap⁴, and the OEB's current work on "looking at the price design for Class B customers as a whole" as stated in its LTEP implementation plan.⁵

Further, the OEB will need to take into consideration the government's intention to launch "a public review of current electricity pricing for industrial users"⁶ as stated in the government's 2018 Fall Economic Statement.

The OEA recommends that a generic proceeding on Remuneration Models (and other matters, such as Class B price design and integrating DERs) be held in a timely manner so that utilities, consumers and 3rd party suppliers can present issues and challenges that are being faced, and all options for remuneration (and other matters) can be explored in a public manner.

At the same time, as these reviews are taking place, it should not prejudice existing rate (or other) applications before the OEB for consideration nor should the ability of parties to make rate (or other) applications be hindered during the review process.

The OEA expects that the OEB's upcoming scoping paper, to be released in the spring of 2019, will address the interdependencies noted above.

D. Gaps

The OEA is of the view that the ACI Report clearly identifies gaps that need to be considered by the OEB (p. 3):

"The Committee has focused its attention primarily on innovation and reforms to the regulation of the electricity distribution sector. However, the broad actions identified may extend beyond electricity distribution as opportunities for change arise in other areas that the OEB currently

³ <https://www.oeb.ca/industry/policy-initiatives-and-consultations/rate-design-commercial-and-industrial-customers>

⁴ <https://www.oeb.ca/industry/policy-initiatives-and-consultations/rpp-roadmap>

⁵ <https://www.oeb.ca/sites/default/files/OEB-LTEP-Implementation-Plan.pdf>

⁶ <https://www.fin.gov.on.ca/fallstatement/2018/chapter-1b.html#section-4>

regulates, including gas distribution and storage, electricity transmission, generation, and the IESO-administered markets.”

For energy consumers to benefit fully from the cost reductions, service enhancements, and new services made possible by innovation, the OEB must look beyond reforms related to the electricity distribution sector, which itself account for about 20% of electricity costs. Customers will benefit from innovation in other segments of the electricity sector as well as the gas sector.

The OEA also expects consideration of these broad gaps to be reflected in the OEB’s scoping paper that is expected to be released in the spring of 2019.

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Let's unravel complex energy challenges, together.