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April 18, 2019

Kirsten Walli
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Re: Staff Research Paper: Examination of Alternative Price Designs for the Recovery of Global Adjustment Costs from Class B Consumers in Ontario

Board File No. EB-2016-0201

Dear Ms. Walli,

Please find Peak Power Energy's comments on the "Staff Research Paper: Examination of Alternative Price Designs for the Recovery of Global Adjustment Costs from Class B Consumers in Ontario," dated February 28, 2019. Our comments seek to address key aspects of the proposal put forward in the Staff Research Paper.

Peak Power is a provider of Energy Storage and Energy Management services to commercial and industrial customers in Ontario, New York and California. Our customers operate facilities that are generally at or above 500 kW of non-coincident peak demand.

Thank you for the opportunity to submit comments on this important matter, we look forward to further engagement with the board.

Best regards,

Michael R. Pohlod
Director, Power Markets,
Peak Power

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Comments on the "Staff Research Paper: Examination of Alternative Price Designs for the Recovery of Global Adjustment Costs from Class B Consumers in Ontario"

The Ontario Energy Board is currently faced with the difficult role of aligning Customer Experience, Cost Causality, the Promotion of Innovation and Utility Remuneration. To this end, four different rate cases are on-going:

- EB-2015-0043 – Board Consultation on Rate Design for Commercial and Industrial
- EB-2016-0201 – Examination of Alternative Price Designs for Global Adjustment from Class B
- EB-2018-0287 – Utility Remuneration
- EB-2018-0288 – Respond to Distributed Energy Resources (DERs)

Peak Power does not believe that each of these issues should be considered separately as this risks the development of inefficient policy and over or under collection of revenue by Local Distribution Companies (LDCs). As a result, our comments may at times speak to these other rate cases in order to encourage the development of an efficient rate structure.

Key Principles for Rate Design

As this and other Rate Cases move forward, Peak would like the Board to consider the following principles:

1) *Incentivizing good system behavior,*
   Customer costs and compensation must align with behaviors that drive short-term and long-term investments.

2) *Empower least cost solutions,*
   Utilities must be empowered to seek low cost solutions and both customers and utilities should be compensated for efficiency created in the wholesale market, and the transmission and distribution systems.

3) *Reflect the complexity of system cost causation*
   Rate design must reflect the complex cost causation that occurs in the sector. This requires the use of System Coincident Peak, Local Coincident Peak, Non-Coincident Peak and other allocation methodologies.

4) *If deemed necessary*, customers can be isolated from complex mechanism, but ensure that LDCs or others are still exposed to the appropriate price signals.

Cost Causality, Ontario's Energy Future and Global Adjustment Allocation

Peak Power would like to emphasize the importance of stable, market-based approaches in developing Ontario's Energy Future. To this end, we believe that the Demand-Weighted methodology favored by the Staff Paper has merit for a portion of the Global Adjustment Cost pool. However, Global Adjustment is the amalgamation of different cost pools, with different cost drivers. The IESO summarizes the GA as:

- The differences between the wholesale market price for electricity, known as Hourly Ontario Energy Price (HOEP) and Regulated rates for Ontario Power Generation's nuclear and hydroelectric generating stations,
- Payments for building or refurbishing infrastructure such as gas-fired and renewable facilities and other nuclear facilities, as well as the difference between HOEP and the generator's contracted rate,
- The cost of delivering conservation programs.[1]

Coincident Peak Allocation

Given these distinct categories, Peak Power believes that different allocation methodologies may be required for different components of the cost pool. This will become increasingly important as the Incremental Capacity Auction (ICA) is phased-in[2]. In order to best align cost causation with cost allocation, we believe it is important to consider a five coincident peak methodology for costs associated with the I) building or refurbishment of power plants, II) energy conservation, III) a portion of the differential between HOEP and contract rates that can be attributed to generator capital costs, and IV) all costs incurred from the ICA. These costs represent the Ontario system's capacity costs. Ensuring that customers are responsive to Coincident Peak will help reduce long-term system costs and distribute these costs fairly.

Demand-Weighted Allocation

Aspects of the Global Adjustment pool that are caused by energy consumption, I.E. the remainder of the payments to generators for the difference of their regulated/contracted rate and HOEP and Ancillary Service Costs should be allocated via a methodology like the one proposed by Board Staff in this Research Paper.

Cost Causation and Customer Experience

At the Stakeholder Information Session on Commercial and Industrial Rate Design on March 7, 2019, Board Staff repeatedly stated that the reason they were shifting away from pursuing Coincident Peak mechanisms was due to customer concern with the complexity of the rate structure. If this remains a concern for the Board, it is possible for the OEB to pursue a system wherein for Transmission, LDCs incur costs based on their contribution to 5CP and then allocate costs to their customer groups volumetrically. This is not unprecedented in the industry and creates a clear mechanism for DERs to provide value to the system and the utility[3].

[1] Understanding Global Adjustment, IESO, January 2018: www.ieso.ca/-/media/Files/IESO/Document-Library/global-adjustment/Understanding-Global-Adjustment.pdf, p. 1

[2] The IESO's Preliminary Decision for the Cost Allocation for the ICA is in line with the ICI's 5-Coincident Peak Methodology. Source: ICA Participation Model – Preliminary Decisions, October 18-19. www.ieso.ca/-/media/Files/IESO/Document-Library/engage/ica/ica-20181018-participation-model.pdf?la=en, Slide 185.

[3] See PJM for an example of this structure. PJM Manual 18: PJM Capacity Market, January 1, 2019, p. 152. https://www.pjm.com/~/media/documents/manuals/m18.ashx