APPrO Comments on the Regulation and Market Development of Distributed Energy Resources

OEB consultation on DERs and Utility Remuneration

EB-2018-0287 and EB-2018-0288

September 18, 2019

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Bottom line Upfront

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- Maximize competition in the electricity market
- Transparent process to estimate benefits of DERs
- Separate competitive and monopoly businesses
- Regulatory certainty needed to facilitate investments
- Some cost shifting is inevitable
- Rules are needed to minimize costs
- A collaborative process to guide and define best practices for DER development and integration

Maximize competition in the electricity market

- A clear and unequivocal commitment to maximizing competition in the electricity market is required
  - Market-based solutions and customer choice
  - Reduce the scope of administered functions over time
  - Market-based growth of the DER sector is a unique opportunity to increase the scope of competition and the level of innovation in the energy sector.

Adapting Utility planning to changing conditions

- Regulation should evolve towards a framework where LDCs are rewarded for least cost planning rather than relying on return on equity for assets deployed.
  - To ensure that all customer interests are served when costs are incurred - whether traditional investments or potentially lower cost DER solutions.
  - Utilities may be able save costs in some instances by considering when and where reliability services may be cost-effectively sourced from DERs.

Transparent procedure for estimating benefits of DERs

- Mandate a practical, easy-to-use approach for estimating benefits at the LDC level
- The Advisory Committee on Innovation (ACI) Report confirms the importance of establishing a methodology for assessing benefits:
  - "Establish an empirical evaluation methodology for cost -benefit comparison so all proposals are evaluated on a fair and consistent basis."
    - Recommendation 2B, Report of the Advisory Committee on Innovation
  - "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 approach should recognize new revenue streams which may be aggregated and allow shared cost recovery."
    - Recommendation 2C, Report of the Advisory Committee on Innovation

A transparent, collaborative and level playing field

- OPG outlined recommendations in the following areas:
  - Providing a transparent and level playing field
  - Clear processes and rules enable innovation
  - Encourage collaboration where appropriate
  - Commitment to competition
  - Removing disincentives to innovative solutions
  - Fair remuneration for the right solution
  - Encourage innovative use of utility assets
  - Open access to information is critical
  - Adopt a market-based approach to distribution capital planning
  - Markets require transparency, a level playing field and the other conditions enumerated above.

Separate competitive and monopoly businesses

- It is essential to maintain a clear distinction between competitive and regulated businesses in the electricity sector.
- Investment will be hindered by uncertainty about whether regulated businesses will be allowed to “compete” in a given market.
  - With some exceptions, such as DERs being installed purely to meet and/or manage the LDC’s own internal load.
    - However even these installations should be sourced competitively wherever possible. Standard LDC rates of return would normally apply unless the risk was born by an entity unrelated to the wires company.
  - Regulators should assess appropriate roles for utilities by applying the simple test:
    - "Is the function or service a natural monopoly that is best delivered by the regulated distributor?"

Regulatory certainty is needed to clear the path for investment

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- A primary challenge for regulators will be to establish a transparent and widely accepted methodology for assessing whether a given investment is "economic" and can proceed without uncertainty about triggering distortionary anti-stranding measures in the future.
- This methodology should be designed to meet two critical standards:
  - Minimize if not eliminate the danger of excess stranded costs requiring mitigation (minimize the social cost of sector transformation)
  - Provide timely assurance to investors, developers and stakeholders as to the viability of a given investment without causing delays that would affect the viability or economics of the proposed project.

Some cost shifting is inevitable

- Recognize that some cost shifting is inevitable during periods of transformation, and not all of it requires mitigation
  - "It is inevitable that some cost shifting will occur as the technology landscape changes. The critical question in this regard is whether each class of customers receives enough net benefit to more than offset any cost shifting. The primary underlying challenge for regulators is establishing rational and transparent tests to determine which investments are economic and which are not, before large amounts of capital are committed, and before investment moves to other jurisdictions."
    - APPrO submission on Commercial Industrial rates, April 12 2019

Rules needed to minimize costs

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- One of the OEB's long term priorities has been to establish consistency of practice in terms of connection rules and procedures.
  - A central objective in this effort must be ensuring that undue costs are not imposed on new and proposed projects. For example, in some cases project proponents have reported unnecessarily high costs for interconnections (studies, protective relaying, lines and transformers, etc.)
  - At the same time, it will be important to establish rules and procedures for ensuring that upstream costs for adaptation experienced by the utility are kept within reasonable bounds.

Collaborative process to guide and define best practices for DER development and integration is needed

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- To ensure a level playing field for the critical process of new connections, it would be timely to organize structured consultations on the design of regulatory incentives regarding connection speed, completion rate, and cost accuracy.
- At the same time it would be appropriate to initiate consultations with the aim of defining terms for the ongoing operation of a collaborative body focused on best practices for management of distributed resources, to ensure safety and reliability concerns are met while placing the least burden on the emerging market.
- It would focus on four major areas:
  - Appropriate systems for management of DERs within an LDC
  - Innovative approaches to connection and operation of DERs
  - Alleviating unnecessary obstacles to distributed energy market activity
  - Defining a reasonable set of service standards for LDCs to use when responding to connection applications from DERs.

Questions ?

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APPrO is a non-profit organization representing more than 100 companies involved in the generation of electricity in Ontario, including generators and suppliers of services, equipment and consulting services. APPrO members produce power from co-generation, hydro-electric, gas, coal, nuclear, wind energy, waste wood and other sources. APPrO's members currently produce over 90% of the electricity made in Ontario.

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