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October 18, 2019

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

Dear Ms. Walli,

RE: EB-2018-0287/0288 – Written Comments Following September Stakeholder Meeting of the London Property Management Association

Introduction

The Ontario Energy Board ("OEB") held a stakeholder meeting on September 17 – 19, 2019 to receive input on the objectives, issues and guiding principles for Utility Remuneration and Responding to Distributed Energy Resources ("DERs"). Near the end of the meeting a number of stakeholders requested the opportunity to provide written comments prior to the preparation of report by OEB staff describing in detail the input received from stakeholders and setting out a proposal outlining objectives issues and guiding principles for each initiative.

In a letter to interested parties dated September 26, 2019, the OEB elected to make a provision for written comments from stakeholders that summarize their views on what the objectives, specific problems or issues to be addressed and the guiding principles should be for each of the initiatives. These are the comments of the London Property Management Association ("LPMA").

The OEB and other parties should not take the following comments as a complete position or view with respect to either initiative. LPMA is providing comments on some of the objectives, issues, problems and principles but is not exhaustive at this time. This is partly due to the need for more detailed information and proposals. As always, the devil is in the details.

Given the wide variety and width of the topics discussed throughout the September stakeholder meeting, LPMA has attempted to arrange its comments more or less in the same order as set out in the Key Themes section of the October 9, 2019 Facilitation Report: September 17-19, 2019 by Strategy Corp. ("report"). LPMA has found this report to be very helpful in organizing its comments. General comments have also been provided.

General Comments

It was generally agreed at the stakeholder meeting that the first step in the process is the need to develop a shared understanding of the issues/problems and the questions that need to be answered. In other words, there needs to be clarity on what is the issue/problem. This includes an understanding of why there is an issue/problem. Only after this clarity has been received, can parties make informed submissions on how the issue/problem and be addressed and who should be doing what to solve the issue/problem.

Embedded within all issues, discussions and planning should be the view that the customer is paramount. This is not an easy thing. Customers are not homogenous. Some customers are focused on cost; some are focused on power quality; some want choice; some don't want to think about electricity – they just want the lights to come on when they flip the switch.

Innovation is generally defined as the process of translating an idea or invention into a good or service that creates value or for which customers will pay. To be properly called an innovation, an idea or invention must be replicable at an economical cost and must satisfy a specific need, such as lower cost or a new or improved service that customers want. Indeed, innovation often results when ideas are applied by a company in order to further satisfy the needs and expectations of their customers.

LPMA submits that innovation must result in lower costs for customers in the long run and/or provide new services for customers. One of the "what" issues/problems touched on above is what do customers want in terms of new or enhanced services, and what are they willing to pay for them? What about customers that are not interested in any of these potential new services?

Innovation should not be undertaken for the sake of innovation. It should only be undertaken when the outcome for customers is favourable.

LPMA believes that the use of existing assets and infrastructure should be optimized before new assets are added, wherever possible. This may mean the need for more interconnectivity between distributors (see Infrastructure and Planning below).

LDCs should be limited to providing monopoly services and should be excluded from providing and/or owning assets that can be supplied by a competitive marketplace. If a utility affiliate wants to be involved in a competitive market, the OEB must ensure a level playing field for all potential participants to ensure that the affiliate participation does not limit competition in any way.

The OEB should include in this consultation at some point a review of rate design and cost allocation, including new rate classes, rate subclasses, etc. LPMA supports the principle that costs should follow benefits. So what happens when additional costs are incurred for the benefit of some customers in any given rate class, while other members of the same rate class do not have any of the associated benefits. Similarly, why should a customer that takes an action to reduce their own costs that provides a benefit to the LDC share that benefit with other customers in the same rate class or in any rate class? If costs follow benefits and a customer pays all the costs, should they not also receive value for all of the benefits provided?

LPMA supports the creation of a number of working groups made up of a wide variety of stakeholders. The number of and focus of the working groups should be determined once the issues/problems have been identified. There should be coordination among the working groups to ensure that there is no duplication of effort and that there are no areas missed by the working groups.

Key Themes

The Need for Definitions

The report highlights a number of terms that need to be defined or defined more precisely. As noted above, LPMA believes that it is necessary to have a number of working groups dealing with various aspects that arise from the two issues being dealt with in this consultation. One such working group should focus on the definitions of key terms.

LPMA is providing some comments on some of the terms that need to be precisely defined in order to avoid confusion and misinterpretation later in the process.

Customers: LPMA believes that customers should be defined as any party that uses the distribution system. This would include both electricity consumers, generators and parties that both consume and generate while connected to the distribution system. Customers would be limited to those parties using the distribution system. Future customers and/or potential customers would be those that will use the distribution system in the future, or may use the distribution system in the future.

Distributed Energy Resources: LPMA believes that DERs is too broad of a term to be of practical use. It should be an umbrella term that encompasses such things (resources) as electricity generation, electricity storage, conservation and demand programs, fuel switching, interruptible rates, system design, etc. that can impact the design and operation of a distribution system. The impact of each of these resources can be significantly different from one another. The impact on a distribution system of a new distributed generator is very different than the provision of LED lightbulbs through a CDM program.

By disaggregating DERs into separate resources, the costs associated with the specific resources can be more accurately identified and tracked separately. LPMA submits that this is important when it comes to recovering costs and reflecting benefits to customers.

Value of DERs: In addition to identifying the system benefits of the resources that make up DERs and how the benefits are measured and assigned value, LPMA believes that it is equally important to determine how to allocate these benefits (and associated costs) to customers.

Distribution Services: LPMA believes that distribution services should be defined as those services that can only be provided by the distribution utility due to its monopoly in the provision service to a geographical area. It should not include any services that can be provided by unregulated service providers.

Utility Remuneration: LPMA believes that this phrase needs to be defined very precisely. Does it refer to the overall revenue requirement, cost of capital, performance incentives or penalties, rate design changes and/or allocation of costs? Does it go beyond these limited items? Does it deal with potential stranded assets? Does it relate only to DERs and the potential of stranded assets, or is it all encompassing?

Customer Focus: One of the most used and least understood terms is customer focus. A focus on customers (however defined) is too simplistic. Customers are not homogenous. They have different concerns ranging from cost to choice to quality of power. This requires all parties to have customer foci. These foci will likely vary not only by consumer versus generator versus other distribution users, but by rate class, and by customers within rate classes that through choice utilize the distribution system differently from others in the same rate class.

Principles

LPMA submits that there should be one overall guiding principle dealing with DERs and remuneration. LPMA suggests something along the lines of that customers (as defined above) must come first. Regulated services must be affordable while maintaining or improving reliability and safety. Customers have different needs and wants and a balanced approach must ensure some customers do not benefit at the expense of others. Costs must follow benefits. Wherever possible cost reductions should be pursued that do not adversely impact safety or reliability. Competition should be enabled and encouraged wherever possible.

Infrastructure and Planning

Current assets and infrastructure need to be optimized before more assets or infrastructure are considered. This should include the potential for more interconnections between distributors where one distributor has excess capacity in an area and another has a shortfall in capacity in the area. This potential is likely to increase with distributed generation, storage and other changes in the sector.

There has been much talk of the potential for stranded assets. While LPMA shares this concern, it would be useful if realistic examples of such stranded assets could be provided. It would also be useful if there was a table or matrix of utility assets and the potential for stranding of these assets. For example, the potential for transformers to be stranded might be higher than that of poles and wires. Station equipment might have a higher risk of being stranded than billing or GIS systems. Parties could then evaluate what percentage of assets are at risk of being stranded. It may be a small portion or a large portion. Until some idea of the magnitude is known, plans for dealing with stranded assets cannot be made.

Integration of infrastructure planning is key. DERs are likely to have impacts on transmission systems and not just distribution systems. DERs in one distribution system may have an impact on another distribution system which may have an impact on a transmission system that is connected to both distributors. Integrated planning at the regional level is extremely important, but so is integrated planning at the provincial level. For example, what would be the impact on DERs if the province were to purchase low-cost water power from Quebec?

During the stakeholder meeting there was a lot of discussion on non-wire alternatives. LPMA notes that the current regulatory system has a built-in bias for the distributors to build infrastructure since they earn a return on the capital invested. Competing against this built-in bias is the recognition that affordability is a key focal point for many ratepayers, ranging from residential customers to small commercial, institutional and industrial customers, to large industrial customers.

LPMA submits that the OEB (and the government, if needed) should provide clear policy signals to distributors indicating that the impact on customers come first. This may mean that a distributors rate base may not grow as fast under the evolution of the sector as it would have in the absence of the evolution. However, there is no reason to believe that rate base will not increase even with the movement to non-wire alternatives and/or the provision by unregulated third parties of services chosen by customers.

There is no evidence that DERs will result in declining rate bases. Even if rate bases were to decline or remain flat this would be the natural evolution of the sector as technology makes it possible for third parties to provide services and customers to self-service that were previously only available from regulated distributors. For example, the taxi industry has been impacted by ride sharing services and by food delivery services. An historical example is the decline of the horseshoeing industry that thrived in the nineteenth and early twentieth century. As travel by horse and buggy was replaced with automobiles that enabled their "customers" to travel faster and farther than ever before (i.e. providing more customer value and choice), the horseshoeing industry faded to the point where it only serves limited markets for the horse racing industry and Mennonites.

There is also an issue with the timing of DERs. DERs may be the low-cost solution in the longer-term but may result in higher costs in the shorter-term. LPMA believes that the OEB may want to review the recovery of costs in such instances by deferring some costs to the later life of an DER-related asset. For example, depreciation rates could be reduced in the shorter-term and increased in the longer-term.

The Ontario Context

While the jurisdictional examples provided during the stakeholder session were informative, LPMA believes that a made in Ontario approach should be taken. This is because of the unique nature of the Ontario industry, including such things as the size of the province, the number of distributors, the regulatory history in Ontario and the level of political involvement in the province.

Competition and Markets

LPMA is a strong believer that market competition is the best way to drive the optimal outcomes and choices for customers. Competition needs to be enabled in an industry that has been dominated by regulated monopolies. As technological innovations occur the sector needs to open up to competition and embrace competition as part of the focus on customers.

Market competition will enable customer choice and customer choice will determine the size and type of competition that will succeed. A regulated approach imposes choices on customers that not all may want, but at a cost that all will pay. A regulated approach may also restrict choices that some customers want. Similarly, a regulated approach may delay outcomes and choices that customers want, thus impeding the development of the market. A competitive market would more closely evolve with the evolution of the choice and outcomes wanted by customers.

The value of DERs (regardless of definition) is best determined in a competitive market rather than in a regulated market.

The fundamental question that arose through the stakeholder meetings was whether there should be a "policy push" or a "market pull". LPMA submits that both components are needed to ensure a viable market to be established. While the regulated market is well suited for the policy push approach, it does not respond quickly enough to market pull. This can stall the development of the market and even kill it. Competition is best suited to respond to market pull as the market providers are not inhibited by regulatory concerns. Competition can also be effective in the delivery of a policy push with the co-operation of the distributors and the regulator.

<u>Role of LDCs</u>

LDCs should enable competition. This is clearly a new and different role from what they are accustomed to.

Competition will be hindered if LDCs are directly involved in DERs. The perception alone that LDCs would have an advantage over other third party DER providers could be enough to effectively shut down an industry in its infancy. Why would a third party provider invest the time and money in exploring a DER project if it faced an uphill battle against an LDC that was proposing to do the same or similar project? Even if it were not true, there would be a perceived bias in favour of the LDC.

The question of whether utility affiliates should be involved in the DER market is more complicated. LPMA submits that as long as there is an equal playing field and that no advantage is provided to the affiliate, affiliates should be allowed to bid on projects. It would be up to the OEB to police and enforce whatever rules and regulations would be needed to ensure the level playing field.

As an example, while an LDC may provide input into where, when and how much generation or storage it is seeking, this information should not be provided to an affiliate prior to it being given to any other potential provider. This would only provide the affiliate with an unfair head start in the competition.

LPMA is a firm believer that the role of LDCs should be confined to those activities that are not readily provided by a competitive market. These activities are likely to shrink with DERs and with other innovations that take place over the years ahead.

In short, the role of the LDCs should be to find innovative and cost-effective ways to assist customers and third-party service providers in implementing innovative ideas that come from not only distributors, but also from their customers and third-party providers. LDCs should not be involved in sectors where a competitive market exists or where a competitive market is evolving.

<u>Role of the OEB</u>

The role of the OEB should be to facilitate the potential for DERs to provide customers with lower costs and more choice while maintaining or improving system reliability and safety. The OEB also has a role in ensuring that costs follow benefits and that one rate class does not subsidize another rate class. In addition, the OEB should ensure that one group of customers in any of the existing rate classes do not subsidize another group of customers in the same rate class. This may involve the creation of more rate classes, subclasses of existing rate classes, or a complete review and redesign of rate classes.

The OEB should manage the transformation of the industry into one where more of the functions currently provided by regulated distributors may be provided by competitive markets. In relation to DERs, the OEB should neither promote or prevent them, it should simply ensure that there is a level playing field for all parties, especially related to information and data sharing.

The OEB should facilitate the creation of an environment that encourages innovation and competition, whether that competition is between third parties, or between distributors. Barriers to competition should be identified as early as possible and addressed to ensure the market can evolve and customer expectations can be met as quickly as possible.

The OEB should ensure that it can adapt to changing conditions and that it has in place mechanisms to ensure that distributors are able to and required to adapt. Nothing kills competition more than red tape and home field advantage of distributors.

The overall role of the OEB should be to deliver all of the above, while ensuring that customers come first throughout all of the changes that may be coming. With respect to the distributors, the OEB should not be protecting them from change but ensuring that their rates are just and reasonable. This may mean that distributors may not be as large in the future as a result of innovation than if the innovation did not take place. Distributors may even be smaller in the future than they are now, depending on what technological advances are made in the coming years. In any event, the OEB should not be protecting distributors from the future.

Finally, the OEB should ensure that all of the participants in the Ontario industry (IESO, transmitters, distributors, generators, storage providers, CDM providers, other service providers, etc.) work together for the overall good of customers. The OEB regulates a significant number of these participants and must ensure that competitive service providers are provided with easy access to the information needed for a market to function. This information should be mandated by the OEB and must be available to anyone who wants it. Transparency of how the market functions and operates is critical to the success of DERs and any other innovations to come along. Failure only results in customers paying more and receiving less choice. In short, the OEB must ensure that failure is not an option.

The Engagement Process

LPMA submits that a coordinated process needs to be in place with regards to the issues in this proceeding and other proceedings or consultations that are currently underway, such as the DER connection review or by the IESO. LPMA notes that this is needed to eliminate the duplication of work, the potential for miscommunication in terms of definitions used and the need for transparency.

As noted in the general comments above, LPMA believes there is a need for working groups on various issues involved in utility remuneration and responding to DERs. Coordination of the various working groups is very important to ensure consistency, robustness and timeliness. The working groups should ensure membership encompasses a wide variety of stakeholders.

Yours very truly,

Randy Aiken

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