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

October 18, 2019

Re: EB-2018-0288 & EB-2018-0287
Pollution Probe Post-Stakeholder Session Submission

Dear Ms. Walli:

Please find attached Pollution Probe's Post-Stakeholder session submission on the above noted proceedings.

Respectfully submitted on behalf of Pollution Probe.

Original signed by

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ONTARIO ENERGY BOARD

EB-2018-0287 & EB-2018-0288

POLLUTION PROBE POST-STAKEHOLDER SESSION SUBMISSION IN REGARD TO UTILITY REMUNERATION AND RESPONDING TO DISTRIBUTED ENERGY RESOURCES

October 18, 2019

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Introduction

In 2017, the Ontario Energy Board (OEB) issued its Strategic Blueprint: Keeping Pace with an Evolving Energy Sector (Strategic Blueprint) which set out its commitment to modernize its approach to regulation in order to keep pace with an evolving energy sector. The Strategic Blueprint reflects the OEB's recognition of significant changes underway and sets out four strategic goals:

- Utilities are delivering value to consumers in a changing environment
- Utilities and other market participants are embracing innovation in their operations and the products they offer consumers
- Consumers have confidence in the oversight of the sector and in their ability to make choices about products and services
- The OEB has the resources and processes appropriate for the changing environment

On September 17 – 19, 2019, the OEB held a stakeholder meeting to receive input on the objectives, issues and guiding principles for Utility Remuneration and Responding to Distributed Energy Resources (DERs). These initiatives are intended to:

- Facilitate lower costs, better service and more choice for customers by encouraging utilities and other service providers to embrace innovation in their operations and the products they offer to consumers

- Secure the benefits of sector transformation and mitigate any adverse consequences

During the stakeholder meeting Pollution Probe and other stakeholders delivered presentations highlighting several barriers and disconnects that are impeding achieving the strategic goals listed above. Pollution Probe acknowledges Strategy Corp for inclusion of these considerations in the stakeholder session report.

Due to the presentations and valuable discussion the OEB has made a provision for written comments from stakeholders that summarize their views on what the objectives, specific problems or issues to be addressed and guiding principles should be for each of these initiatives.

Pollution Probe would like to commend the OEB for proposing to take a clear, accessible and transparent approach in these policy proceedings as it looks at opportunities to remove established barriers to advance cost-effective and consumer focused DER solutions. Change and industry disruption is rarely driven by well-established market incumbents and it will take transparency, rigour and courage to achieve the desired innovative and cost-effective solutions that benefit consumers.

Ontario is not alone in the challenges it faces to modernize its utility model and provide regulatory solutions to meet current and future consumer demands.

Pollution Probe appreciates the opportunity to provide this submission which supplements its presentation and comments provides during the stakeholder session. Given that the stakeholders sessions addressed issues related to both proceedings, Pollution Probe has consolidated comments knowing that the OEB may parse them into separate proceedings at some point in the future. Dealing with related issues together is the most efficient approach at this point to avoid duplication and ensure that solutions are wholistic in nature.

Comments

1. Objectives

Given the large number of issues and options that will be explored during these proceedings it is critical to have a clear and effective approach that connects directly to the strategic and policy goals. It is tempting to punted difficult policy issues and decisions to future proceedings since that provides the comfort of status quo and avoids the need to change now. The issues related to these proceedings are not 10, 40 or 60 years out, they exist now and many DER solutions are already more cost effective than traditional pipes and wire options. To make the most immediate impact it is recommended that the OEB include as much as possible into changes following (or in parallel with) these proceedings and only delay in cases where immediate action is not possible. Even immediate changes can take years for utilities to work through the regulatory cycle.

Pollution Probe indicated that it generally agrees with the principles outlined by the OEB. The OEB's draft principle on consumers focuses entirely on efficiency and value, with the clear aim of ensuring consumer protection. A broader consumer perspective should include consumers options (e.g. making it easy for consumers to change/switch like in the telecom sector) which would be achieved by making consumer choice an explicit element of a utilities' obligations. Pollution Probe also recommends that ***Regulatory simplicity*** include "efficiency and effectiveness" rather than just simplicity. Regardless of the rules, a utility has the ability block any customer DER solution through red tape and there needs to be a transparent mechanism to ensure that does not happen.

2. Specific Issues

2.1 Scope/Timing of Change Required

There was a wide conflict of opinion during the stakeholder session on the timing and scope of change needed. For example, the presentations by SEC suggested a wholesale change in the regulatory model that puts the consumer first and leaves nothing in the current model as sacred. At the other end of the spectrum was a suggestion that utilities invest capital now for 40+ years and expect the rules not to change in order to protect access to capital. In some cases there are rules already established by the OEB that are not well understood or followed by some utilities. In other cases changes will be required. If the OEB can achieve some of these objectives through application of existing rules (e.g. evaluation of infrastructure alternative options, IRP and more effective utility asset plans), that would lead to more immediate consumer benefits.

2.2 Definitions

The Strategy Corp session report identified common definitions as an area that needs attention. Pollution Probe agrees that common definitions are required to ensure that everyone is speaking the same language. It is also critical to enable utilities and other market participants to know the boundaries of what they are allowed to do within and outside a regulated utility. The presentation from Pollution Probe included a definition and reference documents to consider.

2.3 Lifecycle cost assessment

The energy supply and utility model in Ontario has not been very good at comparing alternatives using full life cycle cost assessment. This should occur in electricity generation decisions, distribution asset modeling and most aspects of utility applications and approvals. The lack of fulsome analysis results in traditional pipes and wires solutions that are partially subsidized by consumers through future rate impacts (e.g. additional capital and operating requests). Under the current regulatory context utility asset models have not been required to mature to a level where these tradeoffs are more transparent, replicable and defendable. This is also the case in recent large facility applications where related capital and operational costs were not included, providing only a portion of the picture needed to assess the right decision. There was also no requirement to look at non-wires solutions as an alternative. It is impossible to make prudent decisions without an apples to apples comparison and this puts DER solutions at an disadvantage.

2.4 Economics and a Clean Energy Future

Cost-effective and clean energy solutions have become synonymous and this will be even more aligned in the future as innovation continues. This enables the OEB to strengthen rules that support DER solutions that are good for consumers wallets, their health and environment. Renewable technology and energy storage solutions are already more cost effective than traditional pipes and wires solutions in many jurisdictions. Technology costs have decreased exponentially and are supported across Ontario through municipal energy plans. Utility asset plans have not been updated to reflect these more cost effective (IRP) options and some utilities continue to ask the OEB for IRM rate approval when their asset plans have expired. This violates the expectations of consumers and should be discouraged. A “DER first” approach could be used to reset the balance and become an expected screen for Rate Cases, Facility Applications and Utility Scorecards. A lower rate of return could be considered in cases where this analysis is not performed or is grossly adequate.

2.5 Infrastructure & Planning

As outlined in the Pollution Probe presentation, the current state for utility planning and approvals is characterize by the following:

- Little to no real meaningful consultation with municipality or community
- Favours traditional deeply ingrained engineering supply solutions
- Disincents private or municipal capital that reduces regulated returns
- Discounts the value of energy conservation and other DER solutions
- Lacks alignment with community energy planning
- Not consumer-centric
- Siloed and not transparent

The above characteristics do not support consumers, policy or the OEB goals and change is urgently needed. Utility applications largely ignore local municipal energy plans and other local energy alternatives. In many cases utility infrastructure plans are in direct conflict with the community energy plan. Once Ratepayers funds are spent on ‘old engineering’ solutions there is a risk that they become stranded assets or become a barrier to more cost-effective local DER solutions. The IESO Regional Planning process also requires better alignment and does not adequately acknowledge that the end of the planning process is a capital request to the OEB that the utility needs to demonstrate is a prudent use of Ratepayer funds. In the current Regional Planning process municipalities are only considered external stakeholders rather than a part of the Working Group, which is a large barrier to DER adoption since many community energy plans include DER solutions. This results in innovative ideas outside traditional pipes

and wire solutions being shut out. Municipal energy plans are also typically linked to additional local issues such as reducing GHGs, economic developed and other areas where capital can be sources to reduce the burden on utility Ratepayers. In some cases, utilities are relying on outdated regional and asset plans when they approach the OEB for infrastructure funding. Municipalities need to be an integrated component of any energy planning that is done in their jurisdiction and it should be a requirement to include a letter of support from the municipality for major infrastructure projects, similar to what is done for community expansion proceedings.

2.6 Utility Remuneration

There were several diverging positions presented during the stakeholder session on how and if a utility should be remunerated for supporting or delivering DER. This is not a one size fits all decision. Some DER may align well with utility competencies and others may not. Some DER may be in a natural conflict of interest with current utility asset and shareholder interests. There may be a role for utilities to provide some DER solutions and at a fundamental level they should not be a barrier to consumer funded options.

2.7 The Ontario Context

The Strategy Corp session report outlined comments related to best practices and the Ontario context. Overall solutions need to work in Ontario and recognize the current realities of our jurisdiction. However, the innovation that has led DER solutions to be more cost effective than traditional pipes and wires solutions are due to the global applicability and scale of these technologies and there are valuable lessons that can be leveraged about what regulatory approaches work and which ones do not. Pollution Probe highlighted a few useful reports for consideration including Mowat Centre's *Emerging Energy Trends* and *Distributed Energy Resources* reports and the Pollution Probe-QUEST report for Natural Resources Canada (Canada's Energy Transformation, 2019). There are also some informative examples where utilities have innovated to reduce Ratepayer costs, provide greater resilience, reliability and consumer choice (e.g. https://greenmountainpower.com/product/powerwall/). Many of these DER solutions don't just decrease overall system and consumer costs, but also provide additional benefits such reduced GHG emissions and backup in case of outages.

2.8 Role of the OEB

There are many external factors impacting energy supply choices and those discussed in the stakeholder session are summarized in the Strategy Corp summary report. There are also planning processes and asset management plans conducted upstream of the OEB by the utilities, IESO and other stakeholders. This may appear to suggest that the OEB is just one player in a large complicated sector. However, it is clear that no utility

investments can be recovered from consumers unless they are reviewed and approved by the OEB and deemed prudent. This means that if the rules developed by the OEB are clear, transparent and effective, they can help to raise the bar on meeting consumer and municipal energy needs in a more cost-effective manner. The OEB can play an effective role in achieving greater DER and IESO should align their processes to support the OEB's goals and processes. This also means that in cases where the IESO Regional Planning process does not adequately support municipal objectives or DER, the utility will need to bridge those gaps in order to access Ratepayer funding. The right carrots and sticks will incent utilities to become champions of community energy planning instead of solely maximizing capital expenditures and their rate of return.

Another relevant issue relates to the planning and implementation of utilities. There is a wide variety of competencies and strategies across utilities in Ontario influenced by a number of factors including size, leadership, staff competencies, etc. All utilities have a level of competency in running the day to day utility business, but there is a large divergence in their ability to adopt to change, innovation and navigate the regulatory process. There are situations where one utility does not achieve approval for a new business opportunity (typically proposed as a regulated capital expenditure) and other utilities interpret this as the OEB not being open to innovation. The OEB has undertaken several initiatives to dispel this belief including the Innovation Sandbox and more is needed. Navigating regulatory rules and providing a coherent and defendable case for innovation is a difficult task for most utilities and perceptions often become reality. There are many successful examples of where the OEB approved innovation that is in the interest of consumers, both as an OEB led initiative or in response to a utility request. Highlighting examples and providing greater clarity as an outcome of this proceeding will help remove those barriers.

3. Guiding Principles

Pollution Probe endorsed the OEB Staff List of Potential Guiding Principles and recommends a few additions to make them more effective at a local level. These include:

- Support consumer and community energy planning objectives: Ensure that energy supply and infrastructure planning support local municipal energy plan objectives.
- Promote and Integrate Innovation: A utilities core strength is not to innovate and benchmarking and sharing of best practices will help reward leaders while providing an opportunity for laggards to catch up.

It is essential that the regulatory changes result in real, tangible outcomes. One of the barriers to making DER progress is that good intentions can lead to the illusion of progress without actually achieving any of the outcomes desired. This has occurred in Integrated Regional Resource Planning (IRRP), where there is a stated desire to leverage DER, CDM and other local solutions but the outcomes consistently remain traditional wires infrastructure that are resulting in higher Ratepayer costs and increased emissions. The IRRP Working Groups are confined to traditional planning staff that are biased toward traditional wires solutions. It is reminiscent of the adage "*when all you have is a hammer, everything looks like a nail*". It is a hard cycle to break and there have been little to no tangible incremental local DER outcomes that can be highlighted as success (directly attributable to IRRP), despite the immense interest from many municipalities. Municipalities are treated as outside stakeholders and status quo decision making blocks out serious consideration of innovative cost-effective alternatives. This is a barrier the OEB will need to be aware of in order to develop effective regulatory tools to support DER. There are too many specific examples to expand on in this submission, but Toronto and Ottawa are relevant recent cases where this has occurred. Pollution Probe has worked directly with consumers and municipalities on these issues and would welcome an opportunity to coordinate discussions where the OEB could hear feedback directly.

To this point, Pollution Probe recommends that the OEB modify its principle below as outlined in italics.

Economic Efficiency and Performance: The regulatory framework promotes economic efficiency, cost-effectiveness and long-term value for consumers. *Value should be tangible, able to be clearly tracked (i.e. through Utility Scorecards or an OEB annual report) and is expected to be included in all relevant requests for Ratepayer funding.*