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BY RESS

October 25, 2019

Ms. Christine E. Long
Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Long,

EB-2018-0287/EB-2018-0288 – Utility Remuneration and Responding to Distributed Energy Resources (DERs) – Written Comments Following September Stakeholder Meeting

On September 26, 2019, the OEB issued a letter making provisions for written comments from stakeholders summarizing their views on what the objectives, specific problems or issues to be addressed and guiding principles should be for the Utility Remuneration and Responding to DERs initiatives. Please see attached written comments from Hydro One Network Inc. (HONI) with respect to these initiatives.

Hydro One was unable to meet the OEB's originally stated deadline of October 18, 2019 due to resource constraints arising from other priorities such as preparations for the oral hearing in Hydro One's transmission revenue requirement application (EB-2019-0082). Hydro One appreciates the opportunity to provide feedback and appreciates the OEB's consideration of its comments.

This filing has been submitted electronically using the Board's Regulatory Electronic Submission System.

Sincerely,

ORIGINAL SIGNED BY FRANK D'ANDREA

Frank D'Andrea

Hydro One Comments

Responding to DERs (EB-2018-0288) and Utility Remuneration (EB-2018-0287)

October 24, 2019

Introduction

On September 17, 18 and 19, 2019, the OEB held a stakeholder meeting to receive input from stakeholders on the objectives, problems and guiding principles to consider in the OEB's Utility Remuneration and Responding to Distributed Energy Resources (DERs) proceedings. In a subsequent letter, the OEB invited stakeholders to provide any additional written comments on these foundational issues. A report summarizing stakeholder feedback prepared by OEB staff's facilitator StrategyCorp, was released on October 9, 2019 ("Facilitation Report").

Hydro One Networks Inc. ("Hydro One") had the opportunity to provide its views on the OEB's foundational questions for the consultations in its presentation on September 17th, 2019. After hearing the feedback from all stakeholders at the OEB's meeting, Hydro One believes that the objectives and problems identified in its presentation for each consultation remain appropriate. They are reproduced in Appendix A, for convenience. Hydro One is pleased to offer some further comments informed by the discussions that took place at the OEB's stakeholder meeting.

Objectives

Defining the Problem

In its presentation, Hydro One noted that both consultations would benefit from a defined problem statement which each consultation is intended to resolve. It is Hydro One's view that the appropriate objectives and issues for consideration depend on the problem. OEB staff's consultant, ICF, suggested that there needs to be clarity on the "what" and "why" before advancing to the "how" and the "who" stages of problem solving. While this statement was made in the context of the approach to integration of DERs, Hydro One believes that the statement applies equally to the OEB's Utility Remuneration consultation.

Balancing Customer Needs

In Hydro One's view, one of the key objectives in these consultations will be to find the appropriate balance between enabling the choice that some customers want while protecting the quality of service and minimizing cost increases for those other customers that rely on the grid for traditional service. As noted in the Facilitation Report, customer needs are not uniform. For example, while many stakeholders observed that customers wanted more choice, others (e.g. CME) noted that cost mattered most. Hydro One's engagement with its own customers has also shown that there is significant variability between customer needs and preferences, which can sometimes conflict (e.g. preferences regarding affordability and reliability between different customer groups). The discussions at the stakeholder meeting indicated that while DERs hold the potential to provide some benefits to the grid, their integration could also provide challenges for

a utility's operations. The challenges include the potential for stranding of existing assets and putting upward pressure on customer rates.

Hydro One notes that DERs can be utilized to provide a customer benefit, to provide benefits to the distribution grid, to provide services to the IESO (e.g. energy supply, capacity, ancillary services) or combinations thereof. The benefits realized by DERs are not uniform and depend on factors such as local constraints and the operating characteristics of the DER resource. The traditional regulatory principle of "costs must follow benefits" must continue to apply in assessing cost responsibility for the integration of DERs.

Maximize Efficient Use of Current Assets

Extensive discussion took place at the stakeholder meeting on the investments that are required to enable DER participation in markets. These included communications and monitoring infrastructure, system data platforms and distributed energy resource management systems. Hydro One believes that a key objective of these consultations should be to maximize the efficient use of current assets (e.g. distribution, transmission and generation assets). Utilities and ratepayers have already made significant investments in these assets. Depending on the circumstances, DERs could result in a more efficient use of current assets or they could bypass the use of existing investments resulting in stranded assets. The OEB should ensure that existing assets do not provide unregulated entities with a subsidized, competitive advantage at the expense of ratepayers and should minimize the potential for stranded assets. As indicated on page 7 of the Facilitation Report, "innovation should be encouraged where it is cost effective and efficient, not simply for the sake of innovation."

Determination of Roles

As documented in the Facilitation Report, most participants agreed for the need for greater clarity and consideration of the role of utilities and their affiliates with respect to DERs (e.g. integration, operation, and ownership). Hydro One agrees that the consideration and determination of the utility role is an important element that will drive the appropriate recommendations in both consultations. Hydro One also notes that clarity regarding the roles and obligations of DER providers/proponents is equally important. As was raised during the stakeholder meeting, utilities maintain the obligation to ensure the safety and reliability of grid service. In its consultations, the OEB should consider the appropriate regulatory mechanisms (e.g. licensing and regulation, DSC provisions, etc.) that must be in place in order to ensure that those obligations continue to be met. Where tangible benefits are delivered to the system, DERs should be encouraged and fairly compensated. Utilities should not be precluded from making DER investments where investments provide a cost-efficient means of addressing a system or customer need. The consultations should consider the appropriate roles, obligations and level of regulatory oversight required of all key industry participants.

Affording Utilities Greater Flexibility

Hydro One believes that a key objective of both consultations should be affording utilities greater flexibility to adapt to changing circumstances. DER technologies are wide-ranging (e.g. solar, battery storage, micro-grids, etc.) and many are still in the pilot or field trial stage of their development. The sector experience regarding the application, valuation and operation of various DER technologies is growing at a rapid pace. In contrast, utilities in Ontario's current regulatory

framework are on five-year rate cycles based on detailed multi-year system plans. The current regulatory framework provides limited opportunities for updates in the incentive rate-setting term and a significant amount of time in rebasing applications is spent reviewing performance relative to the original plan on a project-by-project basis. Hydro One suggests that a regulatory framework that afforded utilities greater flexibility to adapt to changing circumstances and meet customer and system requirements at the lowest cost, using the widest range of tools possible, would best serve all parties.

Problems/Issues

Taking a Holistic View of Impact on Grid

As discussed by several stakeholders at the OEB's stakeholder meeting, the integration of DERs introduces technical challenges in systems originally designed for a one-way flow of electricity. Some distributors (e.g. London Hydro) noted that they were already facing constraints in connecting DERs to their distribution systems due to technical/physical limitations at upstream assets (e.g. transmission stations). As the penetration of DERs increases, transmitters and host distributors will face increased pressure to make additional investments to reduce those constraints. Hydro One submits that the OEB should take a holistic view of the grid in these consultations that considers the upstream impacts to both host distributors and transmitters.[1] It is only through that broader lens that the OEB can ensure that it is achieving the appropriate balance between the three pillars identified in the Facilitation Report; affordability, service and sustainability.

The upstream impacts are not only technical, as discussed below, but also related to the remuneration of upstream entities that need to be considered. As noted in Hydro One's presentation, transmission revenues are collected from fully volumetric peak demand charges. That rate design may no longer be appropriate in a policy context with a higher penetration of DER connections as it results in cross-subsidization of costs among other transmission customers. Similar remuneration concerns apply to host distributors.

Solving a Technical Problem

During the panel of distributor presentations on September 18th, 2019[2] there was a discussion on the technical/physical impacts that must be managed by distributors for certain behind the meter DER applications. Hydro One understands that strategic policy consultations typically take a higher-level view of problems and issues, however, the integration of DERs is ultimately a technical issue. Some perceived barriers to the connection of DERs arise from a utility's need to manage technical challenges on its system and meet its obligation for the provision of safe and reliable service. As these consultations continue, it will be important for the OEB and stakeholders to keep in mind the technical challenges so that the removal of any perceived barriers to DER connection does not inadvertently result in compromising the reliability and safety of the distribution system for customers.

[1] Hydro One notes that the page 7 of the Facilitation Report does mention consideration of upstream impacts to transmitters. Equally important is the additional consideration of upstream impacts to host distributors.
[2] The panel consisted of representatives for London Hydro, EPCOR Utilities and Hydro Ottawa.

Principles

Safety and Reliability

Subject to a few minor changes, Hydro One is supportive of the guiding principles that were proposed by OEB staff for discussion at the stakeholder meeting. Hydro One believes that references to ensuring the reliability and safety of the system should be explicitly included in the proposed guiding principles. This will ensure that decision making appropriately considers the technical challenges arising from increased penetration of DERs to protect the safety and reliability of service for all customers; including those that do not elect to install DERs.

Customers Must Come First

The Facilitation Report noted that there was overwhelming support for the principle that customers must come first. Hydro One shares that view. As noted above, Hydro One believes that a key objective of this proceeding will be to find the appropriate balance between enabling the choice that some customers want while protecting the quality of service and minimizing cost increases for those other customers that rely on the grid for traditional service. Customer concerns regarding affordability and minimizing the cross-subsidization of costs are paramount and should guide the OEB's decision-making.

Evidence-Based Decision Making

In its presentation, Hydro One discussed the importance of evidence-based decision making. Hydro One believes that examples from other jurisdictions are informative and help guide the discussion but may not be directly translated to Ontario's circumstances. It important to consider the examples from other jurisdictions in the context of the policy objectives and regulatory frameworks that are driving them, and the degree to which those policy objectives and frameworks align with the Ontario context. The Facilitation Report noted that many parties agreed with this view. In an evidence-based decision making approach, decisions should be based on objective analysis and quantitative evidence, where possible, rather than qualitative statements. Where barriers to desired policy outcomes exist, an evidence-based approach will first consider the objectives of those barriers to ensure that their removal does not result in unexpected outcomes (e.g. negative impacts to system reliability).

Coordinated, Efficient and Transparent Process

Hydro One is supportive of the OEB's renewed approach to stakeholder engagement undertaken for these consultations. As a principle, Hydro One believes that the OEB should commit to ensuring the continued stakeholder engagement for these consultations is coordinated, efficient and transparent. Coordination should occur with other consultations at the OEB (e.g. C&I rate design, DER Connection Review Initiative, etc.) as well as activities at the IESO. The IESO has launched parallel consultations looking at expanding DER participation in IESO-administered markets[3]. The role of utilities in the operation of DERs will be a critical element to discussions at both the IESO and OEB. If work is not coordinated, decisions made by one agency could limit the options available to the other and result in sub-optimal outcomes. Coordination will assist with process efficiency by avoiding unnecessary duplication of efforts for stakeholder resources.

[3] For example, on October 17th, 2019, the IESO issued a White Paper regarding expanded DER participation in IESO-administered markets.

Hydro One notes that the provincial government has yet to articulate its vision for Ontario's energy sector. Hydro One would expect that the OEB would also coordinate with the provincial government, to the extent possible, to ensure that the consultations are aligned with the government's views of the sector in order to maximize the utility of stakeholders' efforts.

- All of which is respectfully submitted -

Appendix A

This appendix re-states the objectives to be achieved and problems and issues to be addressed for each consultation that were identified by Hydro One in its presentation at the OEB's stakeholder meeting on September 17, 2019.

Utility Remuneration (EB-2018-0287)

Objectives to be Achieved

- Improve alignment between incentives provided under rate-setting framework and desired customer outcomes.
    - I.e. continue to shift from input/cost focus to outcome focus.
- Provide transparent mechanisms to incent and reward innovative solutions.
- Afford utilities greater flexibility in making investment decisions that minimize costs for customers.
- Ensure continued investment in Ontario's energy infrastructure.

Specific Issues or Problems to be Addressed

- Need funding mechanisms to encourage R&D/innovation that offers the potential to reduce costs for customers.
- Existing incentive mechanisms should be reviewed against their ability to achieve desired objectives (e.g. capital in-service variance accounts) and new incentives explored (e.g. performance incentives).
- Broader aspects of utility remuneration should also be considered, such as rate design.
- Significant changes to remuneration framework could impact utility's costs and planning, so implementation needs to consider rates application cycle and time required to adopt material changes.
- Evaluate whether the current Transmission Rate design is appropriate given the increasing penetration of DERs.

Responding to DERs (EB-2018-0288)

Objectives to be Achieved

- Determination of role utilities play in operation/dispatch of DERs (e.g. DERMS)
- Determination of appropriate scope of ownership and method of rate recovery for utility-owned DERs.
- Clear definition of utility's obligations to DER owners (e.g. reserving capacity) and DER owners obligations to utility (e.g. availability, dispatch obligations).
- Remuneration should ensure DER owners contribute their fair share to system costs (i.e. must avoid cross-subsidization).
- Enhance transparency; both ensuring utilities have maximum transparency of the DERs connected to their systems and 3rd parties have appropriate transparency of potential system needs.
- Provide a clear definition of DERs for regulatory purposes.

Specific Problems to be Addressed

- Customers using DERs should not negatively impact system reliability or shift costs (increase rates) of other customers.
- Regulation should reflect difference between DERs that provide tangible system benefits vs. customer benefit.
- System benefits must be determined using objective framework to avoid cross-subsidization.
- Non-wire alternatives may result in stranded assets. The consultation should consider how stranded costs may be appropriately recovered.
- Greater flexibility in establishing DER connection agreements to ensure system reliability.
- Consider the upstream impacts to transmitters and host distributors for DER connections.
- Consider the role of transmission assets in enabling the operation and dispatch of DERs.