



March 24, 2020

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27th floor  
Toronto, ON  
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Board File No.: EB-2018-0287/0288

*Submitted via email*

**Re: Utility Remuneration and Responding to Distributed Energy Resources**

AMPCO is the voice of industrial power users in Ontario. Our mission is industrial electricity rates that are competitive and fair.

Attached are AMPCO's comments on Board Staff's presentation and the stakeholder discussion that took place on February 20, 2020. AMPCO appreciates the opportunity to provide such feedback.

Best Regards,

*[Original signed by]*

Colin Anderson  
President

cc. Doug Yates, AMPCO Chair

**Utility Remuneration and Responding to Distributed Energy Resources (DERs)  
Submissions of the Association of Major Power Consumers in Ontario (AMPCO)**

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**INTRODUCTION**

AMPCO provides Ontario industries with effective advocacy on critical electricity policies, timely market analysis and expertise on regulatory matters that affect their bottom line. We are the forum of choice for major power consumers who recognize that their business success depends on an affordable and reliable electricity system.

These comments are made in relation to the presentation materials crafted by Board Staff and dated February 20, 2020, and the February 20 Stakeholder session conducted by the Ontario Energy Board (“OEB” or “Board”) at 2300 Yonge Street. AMPCO’s members are major power consumers, responsible for over 15 TWh of annual load in the province. Any changes to the electricity system that could result in a material price impact - including changes falling under the general subject of “Utility Remuneration and Responding to Distributed Energy Resources” - are of interest to AMPCO members, which is why we are participating in this consultation.

AMPCO appreciates the opportunity to provide feedback.

**BACKGROUND AND CONTEXT**

This topic is notionally about “Innovation” and how the Board should react to this evolution in the electricity sector. That subject is very broad, and as demonstrated by

participation in the OEB's three day session back in September 2019, the viewpoints are numerous and varied.

At times, some of the conversations on this subject move toward a consideration of electrical safety. While AMPCO agrees that employee and public safety in the electricity industry (or any other industry) is of paramount importance, it is unconvinced that it should play a large role in the discussions of Utility Remuneration and Responding to Distributed Energy Resources. That, in no way diminishes its criticality. Rather, AMPCO believes that electrical safety should be considered "table stakes" and any utility, project proponent, customer or other entity engaging in discussions and activities within this sector, whether related to Utility Remuneration and Responding to Distributed Energy Resources or something else, should be expected to comply with all applicable safety standards. For this reason, AMPCO will not be focussing its Utility Remuneration and Responding to Distributed Energy Resources comments in the area of electrical safety.

Accordingly, taking Safety as a given, AMPCO returns to its focus on the three main objectives for any electricity system - Reliability, Sustainability and Affordability.

Any electricity system - and Ontario's is no exception - is something of a three-legged stool.

- First, electricity must be reliable. All industrial, commercial and residential customers need to be able to count on power being available when they need it.
- Second, it must be sustainable. The *Green Energy Act* has left a legacy of sustainability in regards to Ontario's supply mix. AMPCO's Member companies have been making improvements for decades in regard to sustainability and environmental performance. This is not just lip service - these are significant investments for today and tomorrow. We expect the same of our electricity system.

- And third - it must be affordable. While it is true that the *Green Energy Act* was partly responsible for increased sustainability, it is equally true that the same legislation contributed to material cost increases for Ontarians. The greenest, most reliable system in the world is useless if customers cannot afford to connect to it.

As with any three-legged stool, when only two of its legs are intact, the stool falls over. In AMPCO's submission - that is where we are today, having neglected the principle of affordability in exclusive deference over the last decade to sustainability.

For this reason, AMPCO will focus many of its comments on the subject of Affordability. Any actions undertaken pursuant to Utility Remuneration and Responding to Distributed Energy Resources cannot have outcomes that result in significant cost increases to electricity consumers. This must be maintained as the central focus of all considerations for this issue.

The comments below focus on elements in which AMPCO has a particular interest. The absence of comments on other Objectives, Issues or Guiding Principles highlighted by Board Staff or others should not be construed as either support or opposition - AMPCO simply chooses to take no particular position currently on those items.

## COMMENTS ON KEY OBJECTIVES

### A. Electricity Cost Reduction for Customers

As set out above in the section on Background and Context, a key objective of this exercise has to be the over-arching need for affordability and electricity system cost reductions for customers. Ontario's industrial electricity prices are among the highest in North America, with large industrial Class A rates increasing almost 25% over the last

five years, and small and medium industrial Class B rates increasing by over 40% in the same period<sup>1</sup>. Similar increases have also taken place in both the commercial and residential sectors, further underscoring the need for a focus on customers, and the total system costs that those customers bear.

This focus is different than “Value Creation for Customers”, and the two should not be treated as synonymous.

Value creation means many things to many people. To some it may mean incremental service offerings. To others it may mean à la carte options on a bill, while others still may consider it to mean choices regarding supply options, reliability levels or payment options. None of these speaks to costs.

While AMPCO has no doubt that all of these choices (and many others) represent some amount of value to some consumers, AMPCO Members are much more concerned with their costs (and with reducing those costs) than they are with these other choices. For this reason, AMPCO disagrees with the broadening of an objective specifically focussing on “cost reduction” to one of “value creation”. Cost reduction is specific - it requires the number at the bottom of the bill to get smaller, not bigger. Value creation, on the other hand, may not impact costs at all or may allow for cost increases in the belief that the benefit associated with the increase outweighs the cost. AMPCO submits that changes resulting from such increases in value should not be imposed upon those who have a cost focus, or more clearly, increases in cost associated with Utility Remuneration and Responding to Distributed Energy Resources should not be inflicted upon those who do not want them and cannot afford them. If the changes being considered are uneconomic, then perhaps they should be reconsidered when they can demonstrate that they are economic.

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<sup>1</sup> AMPCO Benchmarking, using IESO data.

## B. Avoidance of Stranded Costs

A material increase in Distributed Energy Resources has the potential to result in a significant amount of stranded costs in the electricity system.

Yesterday's system relied on a centralized model for planning and operation. It evolved that way due to the desire to achieve economies of scale and the need for improved reliability. It seemed reasonable to only have one system, since it was so capital intensive to build it.

Almost all of the innovation discussions taking place now regarding tomorrow's system revolve around a somewhat different theme - decentralization or, "grid defection" - with the idea being that we can maintain the benefits of a centralized system, while enjoying the new found products and choices that will exist in an innovated world.

The problem occurs in the transition between these two worlds. We already have the old world system - and we continue to pay for that every time we pay our electricity bills - bills that are already too high. Utility infrastructure in the province is worth tens of billions of dollars - generally included within utility rate base. That rate base is paid for by all consumers on an ongoing basis. Some of the constructs currently being discussed provide incentives to reduce reliance on the existing grid. Reduced reliance will lead to the perception of reduced responsibility for the costs of that centralized system. Those costs still need to be paid - but fewer and fewer people will feel obligated to do so.

The resulting redundancy of certain elements of the electricity system is how stranded costs could be created. We need to understand this undesirable effect and mitigate it. Otherwise, we set ourselves up for a second wave of debt retirement charges.

This concern must be addressed now - before DERs proliferate, and the issue is already real and significant. The full impact on the system including upstream and downstream

impacts and risks and total system cost needs to be assessed within the context of a comprehensive cost benefit analysis. An increase in total system cost as a result of DERs is not a viable outcome. Preliminary need statements for Utility Remuneration and Distributed Energy Resources must appropriately identify and evaluate challenges not just opportunities<sup>2</sup>.

Practically, the OEB needs to consider the issue of potential future stranded costs now when approving proposed five year capital spending plans of utilities.

#### COMMENTS ON PRINCIPLES

In its deliberations on how DERs should be integrated within the existing regulatory system (or if, indeed, that system requires some degree of modification), the Board should keep in mind the principles of “beneficiary pays” and “benefits follow costs”.

A number of participants echoed some form of this sentiment at the September 2019 consultation sessions. The essential message here is that benefits and costs should not be divorced from one another. If the same entities who proportionately bear the costs also proportionately share in the benefits, a natural safeguard is built in such that in no case will activities be pursued whose costs outweigh its benefits. Further, a just and reasonable approach is respected whereby the entity that pays the costs also enjoys the benefits.

In consideration of Utility Remuneration and Responding to Distributed Energy Resources, whatever changes are contemplated to the Affiliate Relationships Code, the Renewed Regulatory Framework or any other regulatory construct must not lose sight of this basic principle.

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<sup>2</sup> Board Staff Presentation Slides February 20, 2020 Slides 25 & 27

On a separate matter, Board Staff in its February 20, 2020 presentation materials<sup>3</sup> references the need for coordination where possible in regards to various “innovation” related activities. AMPCO supports this. Activities, whether sponsored by the OEB, the IESO or the Ministry of Energy, Northern Development and Mines should be merged into a single exercise in order to guard against competing “innovation forums”, guard against stakeholder fatigue and to provide a comprehensive path forward.

#### PROCESS RELATED COMMENTS

AMPCO agrees with Board Staff that the OEB should neither lead nor follow in respect of sector evolution. It must engage and support the sector during a time of accelerating change, build on what’s working well, and focus on removing unwarranted barriers so the market can evolve in its own fashion and at its own pace, but it must not be seen as picking technology or market winners and losers.

The Board (and sector participants) must achieve a clear understanding of *what* needs to be accomplished and *why* it needs accomplishing before moving to answer the question of *how* to accomplish it.

All of which is respectfully submitted.

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<sup>3</sup> See Slides 58 and 59