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APPrO
ASSOCIATION OF POWER PRODUCERS OF ONTARIO

Re: OEB consultation on Responding to DERs and Utility Remuneration
Ontario Energy Board file numbers EB-2018-0287 and EB-2018-0288

April 30, 2020

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
27th Floor, 2300 Yonge St.
Toronto, ON M4P 1E4

Dear Ms. Walli,

Attached please find the comments of APPrO in the above-noted proceedings. We thank you for the opportunity to participate.

We would be happy to discuss this submission in greater detail should you have any questions or concerns.

Sincerely,

Jake Brooks
Executive Director

Cc Dave Butters, Rachel Anderson, Lenore Robson

Association of Power Producers of Ontario (APPrO)

Comments on the regulation and market development of Distributed Energy Resources

OEB consultation on Responding to DERs and Utility Remuneration

Ontario Energy Board file numbers EB-2018-0287 and EB-2018-0288

April 30, 2020

1. Overview

APPrO recognizes the timeliness of the OEB initiatives on Utility Remuneration / Responding to DERs and appreciates this opportunity to have input into the definitions of scope for these proceedings.

2. The scope question for these proceedings

The primary question under consideration at this stage of these proceedings is defining an appropriate scope for each of the two proceedings, Utility Remuneration and Responding to DERs.

Based on a review of discussions to date, it appears that resolution will depend on clarifying the scope of the regulated electric utility business in Ontario. The reason for this kind of sequencing is straightforward: If participants were unclear on the range of business areas in which LDCs operate, it would be difficult or impossible to determine a scope for any review of their relationship to new technology and new business initiatives. One set of scope questions applies to the traditional business areas of LDC wires companies whereas another set of scope questions applies to potential new business areas for LDC wires companies. A third set would apply to potential interactions between the two.

3. Determining the scope of regulated utility businesses in Ontario

For reasons noted above among others, it is important to define the scope of the regulated utility business in Ontario. In answering this question, it is necessary to consider the issues raised by stakeholders to date, existing regulatory policy designed to facilitate competition, and emerging new business conditions.

As many have observed, utilities and their regulators are facing a growing array of business circumstances in which technical and commercial innovation could fundamentally alter the nature of their business and their relationships with customers, suppliers and other market participants.

The Utility Remuneration proceeding EB-2018-0287 began in 2018 with a review of the report from the Board's Advisory Committee on Innovation (ACI). The Committee was established to "help the OEB better understand and identify action items and priorities we can consider to better enable and leverage innovation by regulated utilities - as outlined in the OEB's five-year Strategic Blueprint." The ACI report placed a great deal of attention on Distributed Energy Resources (DERs) but was not limited to DERs. Other areas of innovation were also under consideration including smart grid options, alternative business models for utilities, and other forms of innovation. If anything, the potential scope for relevant innovation has widened since that time.

In June 2019, the Energy Transformation Network of Ontario (ETNO) published a related report that read more like a call to action in this regard: "*Structural Options for Ontario's Electricity System in a High-DER Future*". One of the key messages in this report is directly related to defining the permissible scope of business for regulated wires companies in Ontario. It suggested that achieving certainty on the limits that will apply to the business activities of regulated electricity distributors in developing and managing Distributed Energy Resources (DERs) is time-sensitive and fundamental to meeting essential objectives like ensuring the affordability and reliability of the electricity system.

When the report was released, Peter Gregg, the CEO of the Independent Electricity System Operator, said, "The underlying issue is the question of who should own, operate, buy and sell services related to DERs." Pursuing the same question, the ETNO report reviewed five alternative "development pathways" to effective local DER markets, each of which would substantially resolve the structural question. The only option that was rejected was sitting on the fence.

Considering a similar set of issues when Ontario's wholesale market was designed more than 20 years ago, it was determined that in order to allow markets to grow, the wires operations had to be completely separated from the competitive parts of the business and prevented from operating in the contestable markets as they were defined at that time. Enabling competition is the primary reason Hydro One was created, disaggregating the provincial transmission business from the rest of the province's holdings in the electric power sector.

The power industry is experiencing growth of a new competitive market at the local level similar to that which occurred 25 years ago at the wholesale level. With respect to fostering competition, the same principles apply today. If new entrants are to make investments, establish operations, and deliver benefits to customers, they will need to have certainty that they will not be at risk of facing unfair competition from suppliers who can provide comparable services while relying on revenue from regulated rate bases or captive customers. This principle of alleviating impediments applies to investments which are likely to produce net system benefits. Because not all types of investments are net positive from a system perspective, it is critically important that regulators work with market participants to develop and resolve methods that will clearly distinguish between economic and non-economic investments.

In summary, as ETNO has pointed out, the industry needs to know what rules will apply to regulated utilities operating in the DER sector, and as previous market design processes in Ontario have concluded, if competition is to grow, there must be a clear and unequivocal separation between competitive and non-competitive operations, which normally includes a prohibition on regulated entities operating in competitive areas.

As APPrO and others have noted, while a healthy competitive market requires that rate-based regulated entities be definitively precluded from participating in contestable markets through their regulated businesses, there is a wide array of new business models opening up for both wires companies and their unregulated affiliates. APPrO encourages the Board and stakeholders to develop approaches that will allow both types of entities to thrive along with the markets they serve, while respecting the principles needed for fostering competition in contestable markets. With respect to the wires companies in particular, this could mean larger or smaller businesses in the future, depending on local circumstances. While it's important to maintain financial solvency in those operations which are essential services, this does not necessarily mean assured net growth for all LDC wires companies. Economic efficiency may require reductions of scale in some cases.

4. Recommended principles for scoping Utility Remuneration and DER proceedings

APPrO's consultations with market participants have identified several major issues to be resolved in the process of integrating DERs into the Ontario electricity market. These include:

a) The need to establish and maintain a **level playing field** between competing suppliers of electricity services in the competitive parts of the sector. Specifically, when new investments are being considered, typically at the planning stage, ensuring that alternative investment options, whether they be generation-related, distribution-related, or load-related, are assessed on an equivalent basis, typically in net dollars per delivered kW or kWh yielded by the investment. To enable the growth of healthy competition, rate-based regulated entities should not bid into contestable markets with their regulated businesses against non-rate based entities or unregulated entities.

b) The importance of establishing a transparent common framework for the estimation of costs and benefits related to new grid-connected investments. (Systematic **Cost Benefit Analysis**). This is a sizable undertaking that will require development of an agreed-upon transparent analytical framework, methodology, and an associated database.

c) Establishing a transparent common framework and capacity for **economic assessment to mitigate the risk of stranded costs** before investments are committed. Early resolution is highly preferable because the overall cost of mitigation rises over time, potentially into the billions if left unaddressed. This type of assessment is similar to the CBA in point b) but is distinct in that it will likely be carried out at provincial level, primarily for larger projects, and considers a broader set of costs and risks.

d) The principle of **revenue decoupling** for wires companies, which establishes dependable regulated revenue streams regardless of energy volumes transmitted by wires companies, is essential. Without an established mechanism of this nature, APPrO is not aware of any method that can dependably meet the dual objectives of a) ensuring customers benefit from new technology and b) protecting LDC financial stability, during a period when widely available new technology offers cost savings to customers. The principle was well articulated by the Board in 2014 and implemented for residential customers in Ontario since that time. The Utility Remuneration proceeding could productively examine any remaining impediments to fully implementing the principle of revenue decoupling in Ontario.

e) The market monitoring function includes **surveilling for and preventing financial disincentives to competitive investment**. The province will likely need to establish a comprehensive system to identify any significant financial disincentives to competitive investment and seek to have corrections made in each case. Financial disincentives to competitive investment include any over-recovery of DER costs, and any charges that would or could add unnecessary risk or cost to a customer investment such as standby charges and capacity reserve charges. This function must ensure that all generating types are compared on the same basis, reflecting the principles of maintaining a level playing field and minimizing total cost to consumers. APPrO recognizes that there is reason to develop regulatory mechanisms to prevent new investment that would be uneconomic when considering the entire rate base, as long as those mechanisms are not punitive or damaging to the competitive market. While the design of such charges would fall under a rate design proceeding, ensuring that utilities are properly remunerated without them is a matter to be resolved at a more general level such as the Utility Remuneration proceeding. Establishing the principle of "eliminating financial disincentives to competitive investment" is a matter appropriate for consideration in the Responding to DERs proceeding.

f) Other measures to alleviate impediments to the normal market-driven development of economic DERs.

g) Other measures to ensure the financial stability of electricity distributors.

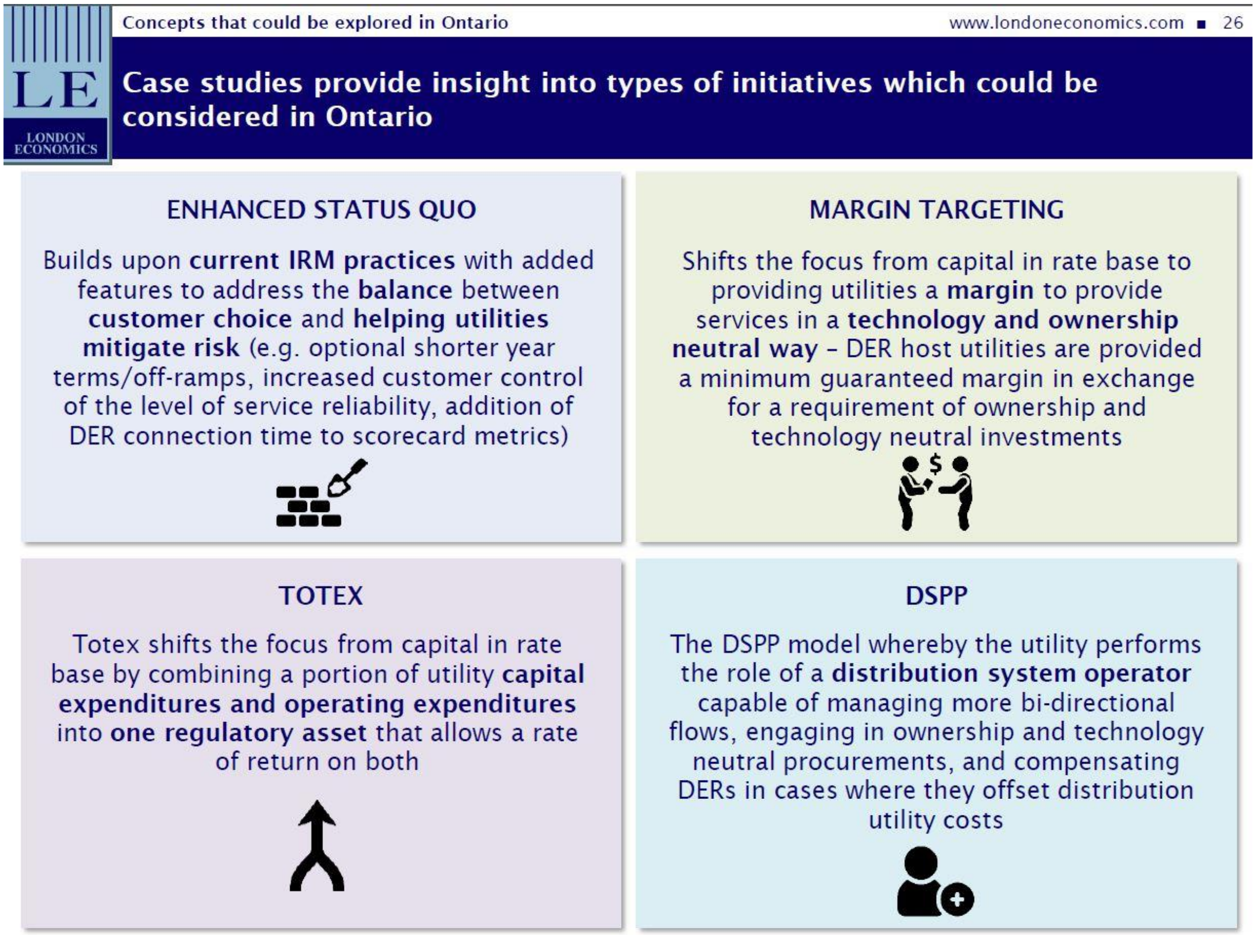
It is worth noting that the Board has frequently expressed interest in, and found support for, establishing a common framework for the estimation of DER benefits. The Board document circulated in advance of its February 20 2020 Stakeholder meeting cited the following as the first item in its list of potential topics in scope for the Responding to DERs proceeding: "Common framework for identifying DER costs and benefits in Ontario". ("Staff Presentation_Remuneration_DER_February 20 Stakeholder Meeting_20200210.pdf" page 52.)

In general, the consensus APPrO has found is that DERs will develop most appropriately if spurred by natural market forces in a competitive framework. This approach adds further impetus to the view that subsidies are not required or appropriate, and that changes should be made as quickly as possible to alleviate any artificial impediments to normal market development. QUEST and others have identified artificial impediments of many types. Some noteworthy examples of these impediments were detailed in their submission of November 11, 2019 to the OEB DER Connections Review proceeding, available at this location.

APPrO commends the work of London Economics International in outlining options for managing the regulation of LDC businesses in an evolving competitive environment. The paper by AJ Goulding of September 2019 identified four alternative approaches:

1. Enhanced Status Quo
2. Totex (Capex plus Opex in one regulatory asset)
3. Margin Targeting
4. Distributed System Platform Provider (DSPP) model

APPrO would be comfortable if these options were part of the scope of the Utility Remuneration proceeding and would suggest that the last option, being most suited to a competitive landscape, be the primary focus of attention. Each of these concepts leads to opportunities to develop business models suited to working with DERs in a mutually constructive relationship.



- From "Approaches to Utility Remuneration and Incentives," by London Economics International at this location.

5. Recommendations

APPrO has the following recommendations on scope:

a) Strengthen and expand the recommended topic from the staff paper "Common framework for identifying DER costs and benefits in Ontario".

The common framework addressed in the staff presentation is a sizable undertaking that will need to be properly organized and resourced. The framework will need to meet a number of tests including being clear, transparent and actionable for market participants. It should enable planning and investment decisions by LDCs and their customers. It should recognize long term costs and benefits of DER projects and include a methodology for fairly estimating benefits in cases where precise calculations would be too onerous. This project will require substantial long term commitments and will need to begin with a well-developed resolution of project objectives.

b) Add a topic to the scope of the Utility Remuneration proceeding along the following lines: "Rebalancing the drivers experienced by LDCs to ensure they are not discouraged from offering timely and reasonably-priced connections for all economic Distributed Energy Resources including generation, storage and demand response."

The reason this kind of topic needs to be included in Utility Remuneration is that the current structure of motivators and incentives creates pressures for utilities to connect load customers, and to flow power to them in many cases, but does not create internal drivers for them to make the most economic choices in cases where connecting DERs would have net benefit to the customer base. It is important to have conditions and mechanisms in place that will effectively ensure LDCs have the necessary drivers and incentives to make connections on a cost-effective and reasonably-priced basis wherever such connections are economic.

c) A further recommended addition to the scope of the utility remuneration proceeding is as follows: "Assessing the potential for islanding and disconnected generation in Ontario and ensuring that both types of critical objectives are met in responding to this risk: utility rate bases are not unreasonably endangered and economic DERs are not unreasonably impeded."

There is anecdotal evidence that some customers are considering disconnecting from the grid in Ontario and self-supplying. This kind of action can prompt further disconnection and create negative economic consequences for all ratepayers. It is important that Ontario decision makers and electricity stakeholders be fully informed as to the degree of risk posed by disconnection. An impartial study of the risk should be commissioned by the Board and published. If the risk is substantial, then risk mitigation efforts should be a key part of the Utility Remuneration proceeding. These risk mitigation measures should meet the two objectives cited above: protecting utility future operation and non-interference with development of economic DERs.

d) The scope of the Utility Remuneration proceeding should be expanded to clarify the approach for resolving disconnection risk, potentially as follows: "Determining which combination of agencies is responsible for developing a systematic solution for managing disconnection and load reduction risk without creating disincentives to customer investments in economic DER solutions". Some customers have considered disconnection and load reduction, in part because of perceived problems with LDC rates and fees. Because disconnection can lead to uneconomic investment, APPrO contends that customer retention must be achieved with attractive rates rather than through penalties or rates that are perceived to be punitive. It will be valuable to host a discussion on defining suitable principles for Utility Remuneration that do not create or exacerbate disconnection risk in the context of growth in customer-owned DERs.

APPrO's more general recommendations on DER integration, part of its presentation to the OEB Stakeholder meeting on September 18 2019, continue to be valid and timely. They are reiterated below.

1. Enunciate a clear and unequivocal commitment to maximizing competition in the electricity market

2. Ensure utility planning recognizes the need to adapt to changing conditions

3. Institute a transparent procedure for estimating benefits of DERs

4. Establish rules that priorize the establishment of a level playing field, transparency and collaboration

5. Separate competitive and monopoly businesses

6. Establish certainty about future regulatory treatment before investments are made

7. Recognize that a certain amount of cost shifting is inevitable during periods of transformation and not all of it requires mitigation

8. Institute rules to minimize grid costs and project costs

9. Establish a collaborative process to guide and define best practices for DER development and integration over time

6. Correction to the record related to OEB Stakeholder meeting of February 20, 2020

During the OEB Stakeholder Conference of February 20, 2020, a representative of the Board incorrectly attributed a certain position to APPrO.

The following comment which appears in the transcript must be corrected:
"To what extent should the OEB enable customer choice? Some argue that customers want more choice. Others, such as CME and APPrO, argue that customer choice only leads to higher costs and at the end of the day customers prefer lower cost to choice."

We understand that the speaker meant to say AMPCO rather than APPrO. The statement above is not consistent with APPrO's views.

Although there was no opportunity to correct the transcript on February 20, we understand that a filing of this nature will be sufficient to correct the record. The problematic statement occurs on page 106, line 16. The transcript document is titled "EB-2018-0287 --0288 Stakeholder Meeting and Presentation Thursday February 20 2020.doc" and was distributed by OEB transcripts on February 20 at 4:55 pm.

Reference documents

OPG submission on the Report of the Advisory Committee on Innovation, January 2019

APPrO submission on the Report of the Advisory Committee on Innovation, January 2019

APPrO submission on Commercial Industrial rates, April 12 2019

APPrO posting on the regulation of DERs on Energy Central, September 2019

APPrO presentation to OEB Stakeholder meeting on Utility Remuneration and Responding to DERs, September 18 2019