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BY RESS AND EMAIL

April 30, 2020

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) Consulations– Hydro One Networks Inc. Submission

On January 21, 2020, the OEB issued a letter inviting participants to a stakeholder meeting held on February 20, 2020 in which OEB staff summarized input from previous stakeholder presentations, comments made during the September stakeholder meeting, and written comments received. OEB Staff also outlined and sought input on staff's current thinking for the scope of each initiative. Following the February stakeholder meeting OEB staff invited written submissions regarding the the preliminary proposals 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 appreciates the opportunity to provide feedback and the OEB's consideration of its comments.

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

Sincerely,

Frank D'Andrea

Frank D'Andrea

Utility Remuneration (EB-2018-0287) and

Responding to Distributed Energy Resources (EB-2018-0288)

Hydro One Comments on OEB Staff Proposals

On February 20, 2020, Ontario Energy Board (OEB) staff held a meeting to summarize the input received from stakeholders, and outline and seek input on OEB staff's current thinking regarding the scope for the Utility Remuneration and Responding to Distributed Energy Resources (DERs) policy consultations. Hydro One commends OEB staff on their work to consolidate and summarize the disparate feedback received by the various parties to these consultations.

Hydro One is providing its comments on the following areas of OEB staff's proposals:

- Guiding Principles;
- Needs;
- Issues; and
- Scope.

Guiding Principles

Hydro One is supportive of the revisions to the guiding principles proposed by OEB staff with three modifications.

Firstly, Hydro One proposes to modify the principle of Economic Efficiency and Performance as shown in bold follows:

> "The regulatory framework focuses on outcomes, promotes economic efficiency, cost-effectiveness and long-term value to customers, **and ensures** safety, reliability, and quality of service."[1]

Hydro One does not believe that it is sufficient to promote safety and reliability. Safety is not is a discretionary outcome that is it to be promoted; it needs to be ensured. OEB staff defines a guiding principle as a value, criterion or standard to compare policy options and develop a preferred approach. As such, Hydro One believes that a standard that simply promotes but does not ensure reliability and service quality is not sufficient. The OEB should not be considering regulatory changes that allow for integration of DERs in a manner that allows for degradation in reliability and quality of service.

[1] The bolded wording is a proposed rewording of the Economic and Efficiency Performance guiding principles shown on page 14 of OEB staff's presentation at the February 20th, 2020 stakeholder session.

Under the principle of "Stable yet Evolving Sector", Hydro One proposes to modify one of the statements as follows:

> "It maintains the opportunity for utilities to earn a fair return **that is predictable, transparent and stable**."[2]

In order to ensure the continued access to capital for Ontario's infrastructure it is important that any approach to utility remuneration adopted by the OEB result in an environment where outcomes are predictable and consistent so that investors, utilities and consumers are better able to plan and make decisions.

Finally, under the principle of "Consumer Centric", Hydro One proposes to modify the first statement as follows:

> "The regulatory framework **appropriately balances the promotion of** cost containment **with maintaining the financial viability of the energy sector in order to ensure** demonstrable value to consumers"[3]

As originally worded, OEB staff's proposed guiding principle stated that cost containment should be prioritized. Hydro One notes that prioritizing cost containment is inconsistent with the OEB's legislated objectives.[4] In order to fulfil its objectives, the OEB must balance the promotion of economic efficiency and cost effectiveness with ensuring the maintenance of a financially viable industry. The OEB cannot prioritize one element of that balance at the expense of the other.

At the stakeholder session, some parties suggested that the Guiding Principle of "Consumer Centric" should go beyond prioritizing cost containment and instead require cost reduction.[5] Hydro One disagrees that this is the appropriate standard. The benefits and value of DER integration may not be solely at the distribution or transmission level and may instead be realized through other reductions in system costs (e.g. a reduction in supply costs). In the near term, distribution costs may increase as distributors make investments to enable enhanced operation of DERs. A standard that explicitly requires cost reduction at the utility level may prevent some benefits from accruing to customers over a longer term. As such, the OEB should look at cost containment through the lens of total system costs and customer value.

Need Statements

Hydro One appreciates OEB staff's attempt to identify the need for the consultations. The proposed need statements are an appropriate first-step but are currently at a very high-level. Under an evidence-based consultation framework, Hydro One would expect that one of the

[2] Ibid.
[3] Ibid.
[4] OEB staff presentation at February 20, 2020 stakeholder session, page 64.
[5] February 20th, 2020 Stakeholder Session Transcript, page 15.

initial steps after the scope is finalized would be to conduct an empirical analysis of needs to inform discussion and prioritize evaluation of issues.

The need statements regarding DERs focus on the opportunities and potential benefits of DER integration however, they do not recognize the impact that a high-level of DER penetration can have on distribution and transmission systems. As such, Hydro One proposes the following addition to the first DER need statement:

> "There is a need for system planning and control to take into account DER adoption so that customer value is maximized, **while maintaining or improving system reliability and power quality**."[6]

Issues

The issues list prepared by OEB staff appears to be appropriate and reflective of stakeholder feedback. Hydro One notes that there appear to be some inconsistencies between the issues identified for consideration and the proposed scope of the two consultations. For example, the issues list mentions "allocating evolving risk", "how to allocate costs fairly among customers" and how to "align rates with underlying costs" yet the proposed scope of the two consultations excludes cost allocation and rate design from consideration.[7] Hydro One submits that OEB staff should consider mapping the issues list to the proposed scope of the consultations to ensure that all issues are being addressed within the proposed scope. Hydro One also notes that the issues list is comprehensive and lengthy. When mapping the issues list, Hydro One suggests that OEB staff also consider the sequence in which issues should be considered in order to keep future discussions manageable.

Definition of DER

OEB staff's presentation included a working definition of DERs for the consultations.[8] At the stakeholder session OEB staff noted that it would be beneficial to have a general definition of DERs at the outset of the consultation, but that the scope of consideration could vary depending on the specific issue being discussed.[9] Hydro One agrees with this approach. OEB staff's issues list, needs statements, etc., discuss two lenses of DER integration from the utility's perspective: planning and operations. Hydro One supports this distinction.

The IESO has provided a high-level, technology agnostic DER definition in its White Paper "Exploring Expanded DER Participation in the IESO-Administered Markets"[10] which Hydro

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[6] The bolded wording is a proposed addition to the first need statement identified on page 27 of OEB staff's presentation at the February 20th, 2020 stakeholder session.
[7] Ibid, page 49.
[8] Ibid, page 37.
[9] February 20th, 2020 Stakeholder Session Transcript, page 93.
[10] In November 2019, the IESO issued a White Paper titles "Exploring Expanded DER Participation in the IESO-Administered Markets". In that White Paper, the IESO proposed that "A distributed energy resource is a resource that:

One believes is appropriate when considering the impact of DERs on a utility's operations. A utility's operations are most impacted by real-time changes in power flows caused by resources that are actively changing their behavior. As a passive resource, energy efficiency does not lend itself to this discussion.

Hydro One is also concerned that OEB staff's definition only includes resources which offer service by committing in advance in response to system needs. Hydro One believes that this definition is too restrictive as it does not include customer-owned, behind-the-meter installations which can impact a utility's operations through large, real-time changes in demand on the distribution system when the DER is triggered to meet a customer's own requirements rather than system needs (e.g. avoiding Global Adjustment charges).

For the purposes of a utility's planning, Hydro One believes that the IESO definition is appropriate but should be expanded to also include energy efficiency. From the standpoint of planning, energy efficiency investments could be among the options considered in evaluating non-wires alternatives.

Hydro One notes that OEB staff's proposed definition is largely consistent with the definition the IESO used in its White Paper. It is important that there is alignment between the IESO and OEB definitions of DERs given the concurrent stakeholder consultations and degree of overlap in consideration of issues.

Scope

Hydro One is concerned that proposed scope of discussion of both consultations does not appropriately include cost allocation, cost responsibility and rate design. Among the proposed objectives for the consultations are that "consumers continue to be appropriately protected as markets for energy services evolve" and that "customer choice does not negatively impact others."[11] It is unclear how the OEB can achieve these objectives without consideration of cost allocation, cost responsibility and rate design. These are the main tools by which the regulatory framework ensures appropriate sharing of costs between customers.

Hydro One understands staff's desire to focus on the "chunk of the pie" first before looking at how to split the pie[12] however, cost responsibility is a factor in determining the "chunk of the pie" because it determines the degree to which costs become a part of a utility's revenue requirement. Early direction from OEB staff to the working groups for the OEB's DER Connection Review Initiative (EB-2019-0207) are that cost responsibility would not be fully considered in that consultation and that discussions would take place in the Responding to DERs

1. Is directly connected to the distribution system, or indirectly connected to the distribution system behind a customer's meter; and
2. Generates energy, stores energy, or controls load."

[11] OEB staff presentation at February 20, 2020 stakeholder session, page 33.

[12] February 20th, 2020 Stakeholder Session Transcript, pg. 130.

initiative which does not appear to be the case in the proposed scope.[13] At some point, a discussion on cost responsibility needs to take place. Under staff's current proposals, there does not appear to be a forum for this discussion to occur.

Hydro One also understands that OEB staff does not wish to repeat work that is already taking place in other consultations (e.g. Commercial & Industrial rate design review, EB-2015-0043) however, in some cases these other consultations were initiated some time ago and may not have fully considered all of the important DER related issues that could impact rate design. In addition, some of the other consultations identified by OEB staff have been deferred during the transition to the OEB's new governance structure and it is unclear whether they will all proceed, as originally planned.[14]

Rate design is one of the biggest issues with respect to DER integration. The nature and value of connection to the grid is changing and the current price signals may no longer be appropriate. The OEB should not delay consideration of this issue. From a practical perspective, the Utility Remuneration could take a year or two to get some initial recommendations and then require further time to iron out implementation. If a similar timeframe is subsequently required to make recommendations regarding rate design, it could be 5 years or so before any direction is provided. That will be too long.

During the stakeholder session, OEB staff noted that there is a need to identify the "residual issues" related to rate design which are not being considered in other active OEB consultations.[15] From Hydro One's perspective, two key gaps are: (i) transmission rate design and (ii) the rate design and cost responsibility between host and embedded distributors.

The current rate design for recovery of transmission costs is a fully variable peak demand charge[16]. Customers who install self-generation and reduce their usage during the system peak are able to materially avoid transmission charges which, in turn, shifts cost recovery to all other customers while having limited impact on underlying transmission costs in the near term. The incentive for customers to install self-generation has grown due to more inclusive eligibility requirements for the Industrial Conservation Initiative (ICI) which provides a material financial reward through avoidance of Global Adjustment costs. In Hydro One's 2020-2022 transmission revenue requirement application (EB-2019-0082), transmission rates are forecast to increase by 4% in 2020 solely due to a decline in load that is largely driven by an expansion of eligibility for

[13] Page 6 of OEB staff's presentation at the December 4th, 2020 meeting of the DER Connection working group indicated that issues upstream of the connection point (e.g. in the distribution system or further upstream with the host or transmitter) would not be considered within the DER Connection Review Initiative. In discussions at subsequent meetings, participants were instructed to assume existing cost responsibility rules remain in place. It is unclear whether this is a temporary restriction at the early stages of the DER Connection review or a reflection that cost responsibility is a broader discussion that should be informed by the discussions of the value and benefits of DERs that would take place in the Responding to DERs consultation.

[14] In its June 19, 2019 letter, the OEB provided details regarding the status of policy initiatives during the transition to a new governance structure.

[15] Ibid, pg. 147.

[16] Tied to customers' coincident and non-coincident peak demands.

the ICI.[17] If the OEB is to achieve staff's stated objective of ensuring "customer choice does not negatively impact others" then rate design of transmission rates should be considered.[18]

The OEB's Commercial & Industrial (C&I) rate design consultation considered rates for customers with self-generation however, the consultation did not consider rate design and cost responsibility between regulated entities. In particular, the cost responsibility between host and embedded distributors and the rate design for embedded distributor customers. Host distributors build capacity in their systems to serve their own customers, as well as, the downstream customers of embedded distributors. When customers of an embedded distributor install self-generation, they lower peak demand for both the embedded and host distributor. The C&I rate design initiative looked at establishing charges for standby service for customers of the embedded distributor but, it did not consider how the rates charged by the host distributor to the embedded distributor should change to prevent shifting of costs to the host distributors customers.

Hydro One notes that the above items are not an exhaustive list and looks forward to reviewing other "residual issues" identified by OEB staff and other stakeholders.

Responding to DERs

The need statements and issues list proposed by OEB staff mention changes to system operations broadly however, the proposed scope limits the discussion of operational impacts to instances where signals are sent by utilities to DERs owned by third parties. Hydro One submits that the impact of DERs on a utility's operations is broader than the limited scope identified in OEB staff's proposal. Hydro One proposes the following adjustment to the proposed scope to allow for a more meaningful discussion:

> "Enhancements to system planning **and operations**."[19]

OEB staff's proposed scope makes no explicit mention of entities that are upstream of the distributor (i.e. host distributors and transmitters). Increased coordination will be required between distributors and upstream entities to address both operations and planning issues as DER penetration increases. It is Hydro One's understanding that transmitters and host distributors are within the scope of entities considered in the statement "Roles, responsibilities, rules and requirements for sector participants engaging in DER activities."[20] If that is not the case, Hydro One requests that the statements be expanded to explicitly include transmitters and host distributors, or OEB staff provide a supporting rationale why the consideration of upstream impacts on transmitters and host distributors is not relevant.

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[17] EB-2019-0082, Exhibit A, Tab 3, Schedule 1, page 27.
[18] Hydro One also notes that the challenges arising from the impact of the COVID-19 pandemic provide further rationale for considering whether a fully variable rate design remains appropriate for transmission rates.
[19] OEB staff presentation at February 20, 2020 stakeholder session, page 52.
[20] Ibid, page 52.

Utility Remuneration

OEB staff asked parties to comment on whether the scope of the Utility Remuneration consultation should include transmitters, as well as, distributors. Hydro One notes that some areas of the proposed scope for the Utility Remuneration may not apply universally to both transmitters and distributors. For example, any outcome measures used to determine performance incentives may differ between electricity distributors and transmitters as specific objectives would reflect the difference in roles.

That said, the transmission system is a key part of the delivery system for electricity and therefore Hydro One is of the view that the OEB should include transmitters within scope of the consultation in order to ensure a holistic framework that appropriately considers total system costs and benefits. Hydro One is in a unique position where it serves the role of transmitter and distributor to consumers in Ontario, and therefore it shares and allocates costs of common assets and functions to achieve efficiencies between its two businesses, which could be complicated if the remuneration frameworks for each business were materially different.

In reviewing the list of issues and proposed scope, Hydro One notes that there does not appear to be consideration of mechanisms for funding innovation, research or pilots. Such activities would benefit the sector as they would provide opportunities to develop the experience necessary to facilitate the evolution of the sector. Hydro One believes that the Utility Remuneration consultation would be the appropriate forum for these discussions.

Conclusion

Hydro One recognizes OEB staff for their work in consolidating and summarizing the disparate feedback received by the various parties to these consultations. The matters discussed at the February 20, 2020 stakeholder session are key foundational elements that will inform these proceedings and should be considered appropriately. Hydro One appreciates the opportunity to provide comments to the OEB regarding these important policy consultations and looks forward to future opportunities for engagement on these issues.