February 17, 2021

VIA EMAIL AND RESS

Ms. Christine E. Long
Registrar
Ontario Energy Board
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Dear Ms. Long:

RE: Utility Remuneration (EB-2018-0287) and Responding to Distributed Energy Resources (EB-2018-0288), Coalition of Large Distributors ("CLD")[1] Written Comments

Introduction

On February 3, 2021, the Ontario Energy Board ("OEB" or the "Board") held a stakeholder meeting in respect of the consultations on Utility Remuneration and Responding to Distributed Energy Resources ("DER"), to review the expert reports submitted by London Economics International ("LEI") and ICF (together, the "Reports") that were commissioned to support these consultations. Members of the Coalition of Large Distributors ("CLD") participated in the event.[2]

Before addressing the Reports specifically, the CLD wishes to emphasize that now that the Board has completed its modernization restructuring, the time is ripe for the OEB to respond to these issues by developing a broader strategic regulatory framework that addresses the unique challenges and opportunities presented by DERs. To date, the IESO has undertaken much of the DERs policy development work, despite a mandate and authority that is considerably different from that of the OEB.

As the regulator, the OEB is the only authority that is in a position to consider the full range of consequences (positive and negative) around the deployment of DERs, including the impacts on customers with respect to price, reliability, and safety, as well as the impacts on utility remuneration. The OEB's public interest mandate is also much better situated than the IESO market-making mandate to consider how enabling different types of DERs in different ways engages and impacts the public interest. In short, it is time that the OEB takeover policy leadership in the DER space, and the CLD is encouraged that the regulator is doing so.

[1] The CLD consists of Alectra Utilities Corporation, Elexicon Energy Inc., Hydro One Networks Inc., Hydro Ottawa Limited, and Toronto Hydro-Electric System Limited. Together, the CLD's members represent more than 3.6 million electricity consumers located across the province.
[2] These comments are the result of further reflection and consideration of the discussions that took place during the course of the stakeholder meeting and should be read in conjunction with previous written submissions and oral comments made by the CLD and its members.

With respect to the Reports, CLD has three principal concerns.

1. The Reports fail to fully account for the vital role of utilities in facilitating the deployment of DERs to meet customer needs and expectations;
2. The Reports neglect Utility Remuneration, and
3. The Reports are disconnected from the day-to-day reality faced by many LDCs across the province today. That is, policy development has not kept pace with technological development and deployment affecting customers, DER proponents, utilities, and other stakeholders, despite a policy docket that has been open for nearly two years.

Each of these concerns are described in turn more fully below.

Part I: Central role and value of LDCs to DER integration

A well-developed regulatory framework must include recognition of the central role of the LDCs as distribution system operators, given that DERs will impact both customers and the system at large. By necessity, such consideration should include understanding both the value and the costs (including stranded assets) that a high DER future might entail. While by no means exhaustive, these concepts are elaborated below.

(i) Formulation and integration of a central role for LDCs

LDCs should be empowered to respond to customer needs and assist them in identifying the options that can serve them, wherever the technology to meet those needs is physically located. LDC capital plans are reviewed by the OEB to ensure they are prudent, efficient, and serve the public interest. The OEB should develop a binding policy that ensures that utility investments are technologically neutral and included in rate base. This form of integrated resource planning generally works well, but in its current state is out of date with technology definitions, capabilities, and certain assumptions, including points of demarcation (i.e., placement in relation to a measurement device – the meter). The Board should focus on the needs of customers and how utilities can help serve those needs, not on the technology used to best serve those needs.

LDCs (subject to OEB regulation) should have the authority to determine when DER is the best grid solution in a particular circumstance (for example, considerations can include grid location, asset type, connectivity feasibility or nature of the load). At the same time, LDCs also need to manage the impact of discrete or individual customer DER choices on grid dynamics and operability, and the associated costs that might arise as a result.

There is, of course, a need to address or consider the allocation of costs and benefits with respect to investments that provide system needs (funded by rate payers) and the portion that is for a specific customer's benefit (not paid for by rate payers), information access requirements, non-preferential treatment, etc. Such determinations should be made by reference to individual and collective customer

benefit, and not by outdated concepts of specific technologies or physical points of demarcation as they relate to the distribution system.

(ii) DER impacts on customers and the distribution system

The ICF Report identifies a number of scenarios and regulatory triggers based on the uptake of DERs over different timelines. These scenarios largely relate to the operational impacts of DER on distributors. This is useful as far as it goes, but there is much more to consider with respect to the impacts of DERs, particularly how DERs impact customers and the grid generally.

Customers should be granted choice and options and LDCs should have access to all the options available to meet their customers' needs in the most cost effective manner. These should not be dictated or restricted by assumptions that drove decision making in a bygone era. Even with increased use of DERs, most, if not all, customers will still rely on utilities to provide, at a minimum, back-up power, enhanced power quality, and reliability. OEB policies need account for DER in light of the enduring role of utilities and their unique ability to serve customer needs.

Further, the value of DERs to the distribution system is locational. ICF recognizes that "the Board could support LDC pilots that explore innovative ways to integrate DER and maximize their potential system and/or local value" (p. 52). However, it understates the importance of locational value of DERs. This has been an ongoing problem in Ontario. Many DERs in Ontario have been procured by the IESO to meet politically determined capacity targets. These resources have been procured without a focus on siting them in a way that enhances the value that they can provide to both customers and the distribution system that serves them (by avoiding or deferring costs, increasing power quality, or improving reliability). It has also failed to consider the impact that customer choices can have on the grid, which will become ever more prevalent as DER penetration continues to grow.

Related to this is the question of system costs of the current resource procurement system in comparison to alternative approaches. ICF focuses on the operational impacts of DERs. While this is relevant, it is relatively small compared to the full costs of resource procurement under the current system.

The CLD is not opposed to a Board analysis of alternative LDC models, ranging from distribution system operators, to load serving entities, to vertical integration. To the contrary, a review of these alternatives is necessary. But that review should not start with the premise that the economic and regulatory goal of DERs is primarily to participate in the wholesale market. There are two related concerns with this approach.

First, the regulatory basis for this assumption is that utilities provide regulated services paid for by rate payers while generation is a competitive activity that operates in a market. However, in Ontario, virtually all generation is either rate regulated (such as OPG's baseload hydro and nuclear assets) or publicly funded through procurement practices paid for by electricity consumers and taxpayers (through IESO procurements and programs) or government programs (such as the Industrial Conservation

Initiative ("ICI")). As a result, virtually all generation and demand response resources are backed by public money. They are not funded through markets.

Second, albeit related, it is important to have a clear-eyed and honest view of how the wholesale market functions in Ontario. The reality is that the Ontario wholesale market produces an hourly price but has not produced any price signals that have a meaningful impact on how electricity capacity is invested in (where government programs fund investment through contracts and other instruments), how the system is operated (where bids and offers are driven by contractual incentives and government programs), or consumption (where customers are isolated from electricity prices through tax payer subsidies). The premise that DERs should be used to provide additional wholesale market price signals of limited value is not a productive starting point for this analysis. Instead of relying on ideological assumptions about how theoretical electricity markets can work, the OEB should focus on how resource investments can better serve actual Ontario electricity customers.

As an economic regulator, the Board should be interested in the impact on costs to customers by ensuring that the costs associated with any publicly funded DERs are prudently incurred and serve the interests of customers. The Board has exercised this oversight with respect to procurement of traditional utility assets and can extend and evolve that oversight to non-traditional assets, including DERs.

Part II: Lack of Utility Remuneration consideration

The CLD notes that neither consultant considered nor commented on Utility Remuneration, which is a vital component to DER policy design and direction. This represents a very material gap that is required to inform the development of a regulatory framework by the OEB.

The CLD understands that this was not in scope for the expert reports, but the importance of the issue remains, nevertheless. Policy design and direction in this area has the potential to have far reaching and critical impacts for generations to come. Understanding the roles, responsibilities, and obligations for all players, including upstream host distributors and transmitters, will impact cost/ benefit analyses and will determine how parties interact with one another, form commercial expectations, and ultimately, how planning is conducted.

Throughout its submissions on this file, the CLD has maintained that items related to cost allocation, cost responsibility and rate design are the main tools by which the regulatory framework ensures that costs and benefits are shared fairly among customers and between parties. This topic area could be considered in isolation or separate from other technical considerations, but it needs to address the issues raised by the introduction of DERs and therefore should be an area of focus for OEB policy development. Lack of direction on this front is causing concern and confusion in the sector.

There are a number of additional related issues that should also be addressed as part of any determination of appropriate utility remuneration structures, including:

- ownership structures around technology deployment to service any of: specific customer needs, community needs, and/or grid-specific needs and the optimization of such;
- whether current regulatory practices discourage investments through O&M (by treating them as merely pass through costs);
- how to structure transaction fees for those customers who agree to adjust their generation and consumption in response to price signals;
- tariff design, including stand-by rates, and gross load billing[3]
- the consequence of stranded assets (existing system-wide assets or future customer level assets);
- information sharing attributes, distribution, costs, and related privacy concerns; and
- a greater emphasis on innovative approaches to funding (pilots, innovation funds, and the regulatory sandbox model have been discussed, but the approaches have been tentative and should be considered more systematically).

Part III: Policy development lagging technology

DER integration must be addressed with a view to the rapid pace of DER installation currently underway in some of the larger utilities. The CLD is concerned that the ICF Report's focus on the "average" utility underestimates the importance of this issue.

The LEI Report contains an assessment that while the COVID-19 pandemic has had an impact on the adoption and installation of DERs in the short term, over the medium and longer terms the factors identified above will resume their influence. Therefore, while the pandemic has interrupted the timing that might have otherwise prevailed for the implementation of DERs across the province, this interruption is only temporary in nature. Indeed, some participants in the February 3 stakeholder session did observe that even though the pandemic has interrupted installations in the short term, it has by no means halted the motivation or desire of customers to implement DERs, and in some cases has even spurred customers to move more quickly.

The ICF Report contains forecasts by technologies (PV solar and storage). As stated above, while these forecasts are interesting, they are not particularly helpful in policy determination going forward. For example, it would be incorrect for the OEB to determine that, based on the ICF forecasts, policy development and consultation can wait another two to four years. DER installations continue to take place, even if at a slower pace, and market players critically need to understand how to plan and organize their investments to achieve their specific goals. The ICF Report itself speaks to a need for LDCs to update their approach to distribution system planning, which forms the basis for some of their recommendations. The time for the OEB to consider these issues is now.

Furthermore, the OEB should not rely solely on projections of PV solar and storage as determinative of a high DER future. Two very significant technologies are missing from the analyses, namely combined

[3] Some of these issues appear to be considered within the OEB's C&I rate design consultation however, the status of that consultation remains uncertain. Should the OEB elect not to proceed with that initiative, the CLD recommends that these issues be considered within the OEB's Utility Remuneration consultation.

heat and power (CHP) and electric vehicles. A case can be made to parse the policy framework in respect of electric vehicles separately, or within this file. But in either case the OEB should not wait to begin work on this file.

Finally, neither report spoke to how any related consultative initiatives might or should be scoped or sequenced. It would be helpful to stakeholders to receive from the OEB, and have an opportunity to comment on, a strategic roadmap setting out the timeline and decision points contemplated for the current Utility Remuneration and DER consultation, as well as how this consultation will intersect with the OEB's C&I Rate Design initiative or the DER Connection Review, as well as any relevant IESO consultations. The CLD is hopeful that an outcome of the ongoing modernization of the OEB will result in greater direction, transparency, and communication around its consultations.

These factors emphasize the need for the Board to take a proactive approach in a timely manner.

Concluding remarks

The CLD's most fundamental concern with the ICF and LEI reports is that they are not strategic. Instead, they are tactical and reactionary. The ICF study addresses "signposts" of regulatory responses that are driven by the adoption of distributed solar PV generation and storage by end-users only."[4] Neither the LEI Report nor the ICF report addresses or even appears to consider that a high DER future may result in greater system operating costs, stranded assets, and sub-optimal, disparate decision making.

In the CLD's view, a more strategic approach is required to address these issues. Instead of reacting to specific events to prompt some yet undefined regulatory action, addressing issues of responding to DERs and Utility Remuneration requires a strategic response.

A regulatory framework that guides all electricity market participants is required to address issues such as the impact of DER risks and opportunities on customers, the distribution grid, and the sector; the ability of LDCs to help customers realize those opportunities and manage risks; and the regulatory responses to the resulting economic consequences of these changes, including utility remuneration, rate design, and cost allocation. These issues are closely related to the impact on customers and the role of LDCs in a future DER marketplace.

In considering the appropriate pacing and prioritization for proceeding with the consultation, the CLD reiterates that the time to move forward is now. Even if it is true that the pandemic has slowed the pace for installation of DERs in the short term, it is no less important that Ontario develop coherent and consistent policies that will enable future DER installations and consider the implications of such. For some LDCs across the province, the implementation of DERs at customer sites and the use of DERs to meet system needs has been continuing and there exists a notable policy vacuum. The CLD does not believe that there should be any further delay in this consultation.

[4] At p. 3.

In short, the CLD submits that the OEB should not rely solely on the Reports in determining the next steps for its Utility Remuneration and DER policy consultation. The Board's leadership role is necessary in order to address the most significant aspects of policy development – roles and responsibilities, cost responsibilities, rate design, public interest (i.e. the distribution of costs to 'non-participants'), and the importance of local operating conditions that permit DER participation in the first place. Now is the time for the OEB to provide the much-needed leadership and direction in these important areas. The OEB has already undertaken significant work to develop, solicit, and organize comments from all parties in respect of the development of scope and timing for these consultations, and that work should be referenced and capitalized upon to properly formulate next steps.

The CLD appreciates the opportunity to provide these comments to the OEB with respect to this important policy initiative.

If you have any questions regarding our comments, please contact the undersigned.

Sincerely,

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