



PUBLIC INTEREST ADVOCACY CENTRE
LE CENTRE POUR LA DÉFENSE DE L'INTÉRÊT PUBLIC

**Toronto Hydro-Electric System Limited
(THESL or Toronto Hydro)
Application for electricity distribution rates and other
charges beginning January 1, 2025
Submission on Innovation Fund**

EB-2023-0195

Submission of the
Vulnerable Energy Consumers Coalition
(VECC)

SEPTEMBER 18, 2024

Vulnerable Energy Consumers Coalition

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Submissions

Overview

1. Toronto Hydro proposed to allocate 0.3% of its approved revenue requirement to an Innovation Fund, which amounts to approximately \$16 million over the 2025-2029 rate period. The fund is designed to support the design and execution of pilot projects that test new distribution capabilities. THESL describes it this way: *“The Innovation Fund supports utility investment in innovation work that is more early stage, exploratory and developmental in nature, where the outcomes are less certain, but the potential benefits for the system and customers could be significant. While the benefits of individual projects may not be immediate or certain, and some initiatives may prove to be more or less fruitful than others, this type of work is nevertheless critical to achieving real innovation during a time of transformation in the energy sector.”*¹
2. For the 2025-2029 rate period, the Innovation Fund proposal includes four pilot project concepts. These are:
 - i. Flexible Connections which will explore operational arrangement for connecting DERs in constrained areas that would otherwise require capital investments;
 - ii. Commercial fleet EV charging;
 - iii. EV-focused pilot that will explore the role of the utility in managing EV charging to optimize grid operations or EV demand response; and,
 - iv. Advanced microgrids.
3. Under the proposal a steering committee of senior Utility leaders will oversee a four-phase governance framework which includes project pilot selection, pilot design, pilot execution and evaluation.² The committee is responsible for approving key decisions with respect to the project such as scope, budget, and timelines.
4. The second part of the Innovation Fund proposal, is a new symmetrical variance account (IFVA) to track actual expenditures, whether capital or OM&A, on a revenue requirement basis against the forecasted amount that will be recovered through a rate rider. Toronto Hydro will propose an approach of clearing the balance in the variance account in its next rebasing application.

¹ Exhibit 2B Section A, page 32

² Exhibit 1B, Tab 4, Schedule 2, page 9

5. With respect to the allocation of these costs to customers Toronto Hydro stated that it proposed a rate rider, rather than through base rates, in order to provide transparency to ratepayers on their bill and flexibility to the utility to determine how the funds should be allocated across capital and operational expenditures on the basis of the selected pilot projects.³ However, no detail was provided which would indicate the expected portion of these costs to be recovered from the various Toronto Hydro rate classes

Submission

6. VECC does not support the establishment of an innovation fund.
7. It is not clear to us that the Board has a role in approving costs to be recovered from ratepayers to satisfy the Utility (or Board's) curiosity. Just and reasonable rates should only support investments which provide measurable benefits to the utility's ratepayers. Regulated utilities are not research or academic institutes and do not have the expertise to engage in critical and rigorous research. Nor does it have a provincial mandate under which it would disseminate "innovation learnings". Nor does it have a mechanism to share the costs of attempting to be "innovative" among all of Ontario's ratepayers. The government of Ontario has established an agency to do that and it is not Toronto Hydro. It is the Independent Electricity System Operator (IESO). This is the agency established by the people of Ontario to research, plan and implement innovation on the evolving electricity sector in Ontario.
8. That is not to argue the Utility should be prohibited from introducing innovative concepts to the distribution system. Engineering innovation should be a normal part of a utility's operations. It is trite to say that distribution technologies in assets such as switching, protection or SCADA evolve and change over time and in tandem with changing demands on the electricity distribution system. For example, the wide introduction of computer circuitry both changed the need for power quality but also the technologies to address that challenge. While it is in vogue today to speak today of "energy transition" in practical terms there are no challenges to be solved in the immediate terms which would require a particular utility to confiscate "special funds" from the captured group of customers it serves.
9. Moreover, there are no rigorous measures or metrics associated with this proposal. Any project should identify the forecast and at the very least the potential customer cost savings. If a project is not undertaken in pursuit of cost savings then it should identify what other potential benefit might be gotten. What precisely are the objectives of the pilots? Does the OEB know? Not only does the proposal lack any specificity as to what value it offers customers there are no proposed mechanism to guard against wasting money on ideas of little merit and little value. That may seem fine to those who think taking a small meal off the table from someone of little means is fine so long as it satisfies the curiosity of the more fortunate.

³ Exhibit 1B, Tab 4, Schedule 1

10. Another problem with establishing such a fund is the dissemination of information. Toronto Hydro has committed only to public circulating the “pilot evaluation and learning report”.⁴ Pilot selection and milestones reports are not proposed to be circulating.⁵ That is, the choice of pilot, who chooses what is priority, is in the sole hands of the utility. The ability to capably run the pilot (i.e., use ratepayer money efficiently) is essentially hidden.
11. The governance structure of the proposal is also deficient. In essence THESL management decides without consultation and on its own the priorities, the projects, the measures of its success (or failure). There is not input from customers or their representatives. As such there is no effort to discern from the various customer class groups their appetite to support a particular pilot project. Is the Board prepared to ensure that the costs of these pilots are collected correctly from those for whom the pilot is supposed to benefit?
12. Nor is there clarity as to the matter of intellectual property arising from a pilot project. If these projects are truly “innovative” (as opposed to testing the implementation of existing technologies) then there should be a clear understanding of who are the beneficiaries of any value that arises. There is not. In our submission if ratepayers pay then ratepayers own the value derived from these projects. This treatment follows from the very notion of a “innovation fund”. The Utility is proposing funding projects which it would not otherwise do. Pilot projects are those that cannot be included as part of the regular investments in the distribution system plan (or in part as part on normal maintenance spending). They are speculative and they offer no clear return. They are projects that cannot withstand the scrutiny required to be part of the DSP. If the shareholder is not willing to take the risk to fund them as an investment and then asks the ratepayer to bear 100% of the cost - who then owns any resulting intellectual property?
13. Finally, there is the question of consistency. If the Board approves an innovation fund for Toronto Hydro then why should it not approve similar funds for every of the distributor in the Province? And if it does how should all those funds be coordinated? Should every utility be allowed to make ratepayers pay for similar experiments? Should ratepayer money be wasted by duplication of effort among utilities? If the Board is inclined to allow ratepayer money to be used on speculative and experimental projects then it should work to institute structures to minimize wasted investments. And as we pointed out at the start, the government of Ontario has already established an agency to coordinate efforts of meeting electricity demand in Ontario. It seems to us that if there are to be “innovative funds” in Ontario they should be coordinated and funded through the IESO which can socialize these costs. An attempt by the OEB to do the same is bound to be complex, sporadic and likely a waste at least some ratepayer money.

⁴ 1B-SEC-29

⁵ Ibid

14. In summary we cannot find any good reason to approve this proposal. It is a request for monies that could not be otherwise achieved through the policy and rules established by the Board to ensure only prudent investments are made and paid for by ratepayers. If approved it establishes a precedent for every other utility in Ontario to do the same. It lacks rigour and metrics to determine success or failure. Simply said – it is playing with ratepayers' money.
15. VECC submits that it has acted responsibly and efficiently during the course of this proceeding and requests that it be allowed to recover 100% of its reasonably incurred costs.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

SEPTEMBER 18, 2024