

September 19, 2024

Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street
P.O. Box 2319
Toronto, Ontario
M4P 1E4

Dear Ms Marconi:

EB-2023-0195 – Toronto Hydro-Electric System Limited – 2025-2029 Rates - Submissions of the Consumers Council of Canada – Innovation Fund Proposal

Please find, attached, the Submissions of the Consumers Council of Canada pursuant to the above-referenced proceeding.

Please feel free to contact me if you have questions.

Yours truly,

Julie E. Girvan

Julie E. Girvan

CC: All parties

FINAL SUBMISSIONS OF THE CONSUMERS COUNCIL OF CANADA

RE: TORONTO HYDRO-ELECTRIC SYSTEM LIMITED – 2025-2029 RATES

INNOVATION FUND

EB-2023-0195

INTRODUCTION:

On November 17, 2023, Toronto Hydro-Electric System Limited (Toronto Hydro) applied to the Ontario Energy Board (OEB) for approval of a custom rate plan for the period 2025-2029. All of the issues were settled through a settlement negotiation process with one exception: Issue 2.4 – Is the proposed Innovation Fund appropriate? These are the final submissions of the Consumers Council of Canada (Council) regarding the outstanding issue.

TORONTO HYDRO’S PROPOSAL:

As part of its custom rate plan Toronto Hydro proposed to establish a \$16 million 2025-2029 Innovation Fund to support the design and execution of pilot projects focussed testing of innovative technologies, advanced capabilities, and alternative strategies that enable electrification grid readiness and facilitate DER integration. The \$16 million will include both capital and operating costs.

Toronto Hydro characterized the fund in the following way:

The Innovation Fund supports utility investment in innovation work that is more early stage, exploratory and developmental in nature, whereas 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 initiative may prove to be more or less fruitful than other, this type of work is nevertheless critical to achieving real innovation during a time of transformation in the energy sector.¹

Toronto Hydro’s evidence is that its proposal is responsive to the OEB’s expectations expressed in *the Framework for Energy Innovation (FEI) Report*:

The OEB expects distributors to modify their planning and operations to prepare for Distributed Energy Resources (DER) impacts on their systems, including integrating these resources cost-effectively, while maintaining reliable service for their customers.

¹ Ex. 1b/T1/S1/p. 23

Distributors are also expected to consider DER solutions as NWAs when assessing options for meeting system needs.²

Toronto Hydro's proposal is to collect the Innovation Fund through a rate rider, rather than base rates, in order to provide greater transparency to rate payers on the bill and flexibility to determine how the funds should be allocated across capital and operational expenditures on the basis of the selected projects. Toronto Hydro also proposes to establish a variance account to record variances between the amounts collected by the rate rider and the actual costs incurred to execute projects as part of the Innovation Fund.³

Toronto Hydro's rationale for the Innovation Fund is as follows:

- The Ontario Energy Board Act, 1998 now includes a responsibility to facilitate innovation in the sector;
- Letters of Direction that the OEB has received from the Minister of Energy in recent years have highlighted the importance of innovation to support rapid and transformative change in the sector to enable the Government's vision for the energy system; and
- The energy sector is on the cusp of transformation driven by decarbonizing sectors of the economy through electrification. There are degrees of uncertainty about how this will unfold. Innovation is key a key tool for managing this uncertainty by building new capabilities to adapt to change and by leveraging technology to achieve expanded benefits for customers.⁴

Toronto Hydro has identified specific areas of innovation it intends to focus on, but has not designed the pilots or other initiatives.

With respect to the level of funding Toronto Hydro undertook research across other jurisdictions and found comparable innovation initiatives and research and development activities. The funding of those investments ranged from 0.3% to 1% of revenues. Toronto Hydro's proposal is for a budget of .3% of its proposed revenue requirement for the 2025-2029 Innovation Fund.⁵ Toronto Hydro referred to initiatives in the United Kingdom (Ofgem's RIIO 2) and the Reforming Energy Visions framework in New York as well as others. Toronto Hydro also referred to a proposal by Enbridge Gas Inc. for an Energy Transition Technology Fund to advance research, development and commercialization of low-carbon technologies. That

² Ex. 1B/T4/S2/p. 1

³ Ex. 1B/T4/S2/p. 1

⁴ EX. 1B/T4/S2/pp. 2-3

⁵ Ex. 1B/T4/S2/p. 5

proposal, which has not been approved by the OEB, would allocate .4% of the test year revenue requirement to the fund⁶.

In developing the pilot projects Toronto Hydro intends to focus on areas of innovation that have the following characteristics:

- The innovation project explores a distribution capability that is connected to adapting to fundamental change in the energy landscape as identified in or related to expectations set out by the OEB for DER integration in the FEI Report. This would include evolving and enhancing load forecasting, enabling investments such as system monitoring and data analytics, adjusting operational practices to incorporate and manage DERs on the system, modifying planning processes to identify assess and implement non-utility owned DER solutions and develop skills and knowledge and acquiring talent.
- The innovation project has potential to deploy an inventive solution. This would include the use of new technology or new ways of using existing technology, innovative business practices including relation⁷ships with others to enhance service to customers and share costs or enhancing distribution services in a way that benefits customers.

Toronto Hydro identified four pilot concepts that could be supported by the proposed Innovation Fund: Flexible Connections, Electric Vehicle (EV) Commercial Fleet Charging, EV Demand Response and Advanced Microgrids. These were considered to be too nascent to deploy as standard distribution system solutions. They were also identified as posing a funding risk because more developmental work is needed to test the technologies and prove related beneficial outcomes for Toronto Hydro's system. It is clear these are concepts and not proposals. It is unclear whether to pursue these concepts would be in the best interests of ratepayers.

Toronto Hydro has proposed a governance framework to guide the deployment of the proposed Innovation Fund. The governance framework would be overseen by a steering committee of senior utility leaders. This would involve pilot selection, pilot design, pilot execution and pilot evaluation. Toronto Hydro also intends to engage with external stakeholders to present ideas and solutions that are being considered for the deployment of the Innovation Fund. This would include the IESO, the IESO, Natural Resources Canada and other regulated entities such as Ontario distributors and other energy companies in other jurisdictions that have relevant experience with innovation projects⁸. Toronto Hydro has no plans to consult with ratepayers with respect to the pilots, the costs of those pilots and the potential outcomes.

SUBMISSIONS:

⁶ Ex. 1B/T4/S2/p. 6

⁷ Ex. 1B/T4/S2/p. 6

⁸ Ex. 1B/T4/S2/p. 11

The Council recognizes that the energy sector is transforming, further electrification will occur and innovation has been encouraged by both the OEB and the Government of Ontario. In addition, the FEI Report articulated the OEB's expectation that distributors should modify their planning and operations to prepare for DER impacts on their systems, including integrating these resources cost-effectively, while maintaining reliable service for their customers. There is no question that things are changing and under the right circumstances innovation pilots may have value for customers. However, the Council does not support Toronto Hydro's proposal for its Innovation Fund for the following reasons:

- Toronto Hydro is asking for approval of approximately \$16 million for pilots that are not defined, may not bring benefits to ratepayers and are ultimately not subjected to a prudence review⁹;
- The \$16 million does not represent a cap so the cost to ratepayers may exceed that¹⁰. Given the funding is determined on a revenue requirement basis the actual costs will exceed the \$16 million as it includes both capital and operating expenses;
- Toronto Hydro may apply for funding for innovation pilots from NRCan, so the opportunities for outside funding have not yet been confirmed¹¹. How that funding will impact Toronto Hydro's proposals is not clear;
- There are approximately 60 other local distribution companies in Ontario. If the OEB were to grant Toronto Hydro funding for pilots that amount to .3% of its revenue requirement would the OEB also be compelled to provide funding at the same level for other LDCs? If so, what would be the overall cost to Ontario ratepayers for pilots that do not necessarily deliver results?
- Given the fact there are approximately 60 local distribution companies in Ontario makes Ontario unique and more suited for a coordinated approach to enabling electrification grid readiness and facilitating DER integration. This could be coordinated and funded through the OEB or the IESO;
- A centralized approach to the development of innovation pilots would ensure the risk of duplication in Ontario is minimized;
- A centralized approach would also ensure that Ontario LDCs are not undertaking pilots that have been undertaken in other jurisdictions or are currently being undertaken in other jurisdictions;

⁹ 1B-CCC-46/p. 3

¹⁰ Ex. 1B-CCC-46/p. 5

¹¹ Ex. 1B-CCC-47

- Toronto Hydro pointed to other jurisdictions where utilities have approved funding for innovation projects including the UK, New York and Nova Scotia.¹² Unlike with Toronto Hydro’s proposal, the utilities in these jurisdictions are not the ones making the decisions regarding the projects to pursue. It is either the regulator or the government. Oversight is done outside of the utility;
- Toronto Hydro is not proposing to undertake business case analyses with respect to its proposed pilots. If ratepayers are expected to fund these projects, what are the expected benefits - both qualitative and quantitative?;
- Over the 2020-2024 rate period Toronto Hydro created an internal Innovation Sandbox. It was self-funded through rates and through that Toronto Hydro developed new strategies and technologies that can be scaled into its normal operations¹³. It is unclear why Toronto Hydro cannot continue to fund its pilots through rates as it did during the previous rate plan term;
- Over the 2020-2024 rate period Toronto Hydro received substantial funding from the IESO through its Grid Innovation Fund. It is unclear to what extent further funding from the IESO would be available going forward;
- Toronto Hydro is undertaking a Grid Modernization Strategy with an overall cost of approximately \$550-\$600 million over the 2025-2029 rate plan period¹⁴. It is unclear to what extent the projects Toronto Hydro seeks to undertake through the Innovation Fund are incremental to the work being done in the context of the Grid Modernization Strategy;
- Although it is not part of the proposal Toronto Hydro indicated it was not opposed to looking at joint funding with other utilities.¹⁵ How that joint funding would work is not clear and currently not part of the proposed funding framework.

CONCLUSION:

The Council supports innovation and recognizes the need for utilities to adapt to a changing landscape. The Toronto Hydro Innovation Fund proposal is not a sound proposal and is clearly not in the best interests of Toronto Hydro’ ratepayers. Given the unique nature of the Ontario electricity distribution sector a more centralized approach to developing innovation should be adopted. It is clear that if the OEB approved Toronto Hydro’s Innovation Fund proposal, other utilities across the Province will be seeking the same approval. The costs could be significant without a clear understanding of how utilities and their customers would benefit. The OEB and

¹² Undertaking JT 3.36

¹³ EX. 1b/T4/S1/pp. 2-3

¹⁴ 1B-CCC-43/p. 2 and 1B-CCC-44

¹⁵ TC Transcript, April 11, 2024, p. 100

the IESO, entities that have been collaborating with respect to innovation for several years now, should continue to do so. A centralized approach to the development of pilots and the funding of those pilots is a much more prudent approach than having each and every LDC engage in ongoing research and development that may or may not benefit their customers.

All of which is respectfully submitted.