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File No. 61604.57

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VIA RESS

Ms. Nancy Marconi
Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, ON M4P 1E4

Dear Ms. Marconi:

Re: Generic Hearing on Uniform Transmission Rates ("UTRs") – Phase 2 (EB-2022-0325)
Association of Power Producers of Ontario ("APPrO") and Energy Storage Canada ("ESC") Reply Submissions

We represent APPrO and ESC in the above noted matter. Enclosed are the reply submissions of APPrO and ESC on Phase 2 of the Generic Hearing on UTRs.

> ***Issue 5.1: Should application of gross load billing thresholds to embedded generator units be defined by generating unit or generating facility or by some other approach? This includes refurbishments approved after October 30,1998, to a generator unit that existed on or prior to October 30,1998.***

Hydro One's submits that current rules for billing embedded generation in the UTR Schedule may result in unintended outcomes and could be argued as unfair or unreasonable on the basis that: (a) Hydro One is aware of "several instances" where exemptions apply in ways that may not have been contemplated; and (b) customers may be leveraging the rules in a manner that is leading to unfair outcomes and is not consistent with the OEB's Decision with Reasons in RP-1999-0044.

APPrO and ESC submit there is a lack of evidence to depart from the existing policy of gross loading billing on a per unit basis. APPrO submits the evidentiary record does not provide the OEB with a clear understanding of why some customers have installed smaller units and the potential impact this change would have on their operations and overall energy costs for consumers. Changing to a per

facility basis may work against policy objectives from a provincial government who is pushing for a significant amount of new supply in nearly all regions of the province.[1]

With respect to (a) above, APPrO and ESC submit that Hydro One's anecdotal evidence of "several instances" where exemptions unintendedly apply is not sufficient to support changes to the existing rules for billing embedded generation. Hydro One is making several improper assumptions in coming to this conclusion: (a) the "several instances" are representative of a broader trend; (b) the sample size (without any statistical, quantitative or qualitative evidence) of the "several instances" can be used to reliably extrapolate a conclusion; (c) the issue applies broadly across all types of embedded generation facilities; and (d) Hydro One correctly identified what the drafters were contemplating and intending while drafting the rules, notably without reference to any extrinsic evidence.

With respect to (b) above, Hydro One does not analyze why there may be other reasons for a customer to install several smaller units rather than one (or multiple) large unit, for example such as construction costs, installation costs, equipment costs, sizing, end-uses, operational flexibility, and optimizing electrical configuration. While APPrO accepts that the gross load billing threshold may be a factor, there is no evidence to suggest that this is the ***sole*** or even a primary reason for every installation of multiple, smaller units. There is no evidence on record on how large and pervasive this issue is other than an unspecified number of "several instances."

By not providing any evidence or discussion on why a number smaller units may be more effective from a cost or operational standpoint, Hydro One does not provide support for how this investment is not "fair" or creates "unintended outcomes."

It is Hydro One's proposal to move to a facility basis that may actually be creating unintended outcomes. Such a change will result in several customers facing significant increases in delivery costs. There is the potential that the increase in costs reduces the economics of the investment to such an extent that the on-site assets are sold off or retired, resulting in a demand increase on the transmission system at a time when demand is expected to grow materially over the next two decades. For example, assume that a customer installed four 800 kw/800 kwh batteries and will now – under a facility basis structure – be charged for 3,200 kw of demand for transmission. The increase in delivery costs may not be fully offset through other savings, resulting in the customer potentially selling off some of the on-site generation. The net result could be higher demand requirements and higher costs – through greater capital investment needs for increased ***actual*** transmission demand – for all customers.

Given that APPrO and ESC do not believe a change should be made to the existing definition, the issue of grandfathering existing versus new units does not need to be addressed. If the OEB decides to update the definition to "facility" rather than unit, at the minimum all existing assets should be exempted from the change, as they made an investment decision under a certain regulatory policy and should not be unduly harmed. As noted throughout our submission, there is no evidence showing that installing smaller units rather than one large facility was done solely to reduce gross load billing charges.

[1] The Provincial government even specifically highlighted the importance of Distributed Energy Resources (DERs), such as energy storage, as a means for customers to reduce energy bills.See: https://www.ontario.ca/page/ontarios-affordable-energy-future-pressing-case-more-power

Issue 5.3: How should the UTR schedule apply to energy storage facilities?

In its comments, VECC argues that energy storage should be subject to gross load billing based on how Hydro One's planning assumptions. APPrO and ESC disagree and submit that the OEB should consider an exemption for energy storage assets regarding gross load billing given the province's significant need for new capacity and forecasted demand growth. On site generation will be needed – and is being supported by provincial policy – to meet forecasted demand and eliminating gross load billing to the greatest extent possible will support this objective. APPrO and ESC also believe Hydro One's planning assumptions regarding on-site generation are overly conservative and costly for ratepayers.

Energy storage facilities operate on a simple principle of price arbitrage – withdraw and store energy when it is cheap (corresponding with times of low demand) and discharge energy when energy prices are high (typically during times of high demand). Energy storage facilities are a particular type of embedded generation where the energy supply profile will, in nearly all situations, correspond with periods of high demand therefore reducing peak demand on upstream transmission facilities. From a policy perspective, these types of facilities should be encouraged to avoid or defer new transmission investments.

Hydro One's current approach improperly assumes that no on-site generation will be available during peak demand hours. This completely contradicts why many customers install energy storage on site: to avoid peak wholesale energy prices and/or reduce Global Adjustment (GA) charges through the Industrial Conservation Initiative (ICI). Capturing both of these benefits requires that the on-site storage asset be operating during peak demand hours – when both wholesale prices are typically highest and when the Peak Demand Factor (PDF) is calculated for ICI participants.

Given the operational characteristics of energy storage and the financial incentives to operate during peak demand hours, there is limited reason to believe that ALL on-site generation would be offline during the highest demand hours (and that demand would need to be served by the transmission network). Hydro One currently plans the transmission network to meet peak demand and includes all on-site generation in its planning criteria. The reality is that on-site storage resources are reducing peak demand needs and should not be fully allocated costs through gross load billing.

Issue 6.1: What should the gross load billing thresholds be for renewable and non-renewable embedded generation?

APPrO and ESC submit that energy storage should be exempt from the gross load billing threshold. Alternatively, the OEB should consider setting the gross load billing threshold for energy storage at 2 MW to align with broader provincial policy. While OEB Staff argues that the threshold for renewable generation potentially be increased, they also argue that the 1 MW threshold for non-renewable on-site generation remain at 1 MW. Given the current policy environment, APPrO and ESC believe that a higher (or fully eliminated) threshold should be established for on-site generation.

For storage in particular, the province's energy policy framework, "Ontario's Affordable Energy Future: the Pressing Case for More Power" specifically highlights the desire to expand on-site generation, including energy storage:

> *"Customers would benefit from increased opportunities for customer-sited generation and **storage** that offers bill savings or resiliency benefits for residential, small business and farm customers."*

The current gross load billing policy acts as a barrier to on-site generation rather than an enabler. As noted elsewhere, the current planning approach by Hydro One is to assume that all load served by on-site generation should be met by the transmission grid. This is a conservative assumption, likely leads to higher overall costs for all customers and ignores the reason that most customers install on-site generation (i.e. to avoid costs by reducing peak demand or increase reliability during outages, among other reasons). Apart from being a conservative, high-cost approach, the current planning approach from Hydro One also contradicts provincial policy that now explicitly supports on-site generation from storage (and other types of assets).

Given the provincial policy, the OEB should, at the minimum, increase the gross load billing threshold for on-site generation to 2 MW to better align with the threshold for renewable assets (which were set at that level to align with previous provincial policy). The OEB should also consider an outright exemption for on-site generation from storage given the provincial support it is now receiving.

Closing

APPrO notes that it proposed to file evidence on several of the gaps identified above. The current evidentiary record is limited and does not fully address the gross load billing threshold. As noted throughout this submission, the provincial government is pushing for new supply – including from on-site generation. The lack of an evidentiary basis to maintain the status quo for a gross load billing policy that may undercut provincial policy should be addressed before any additional barriers to on-site generation are imposed as part of this proceeding.

Yours truly,

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