

ONTARIO ENERGY ASSOCIATION

# UTILITY REMUNERATION AND RESPONDING TO DERs: EB-2018- 0287/0288

OCTOBER 18, 2019

To shape our energy future for a stronger Ontario.



# ABOUT

The Ontario Energy Association (OEA) is the credible and trusted voice of the energy sector. We earn our reputation by being an integral and influential part of energy policy development and decision making in Ontario. We represent Ontario's energy leaders that span the full diversity of the energy industry.

OEA takes a grassroots approach to policy development by combining thorough evidence based research with executive interviews and member polling. This unique approach ensures our policies are not only grounded in rigorous research, but represent the views of the majority of our members. This sound policy foundation allows us to advocate directly with government decision makers to tackle issues of strategic importance to our members.

**Together, we are working to build a stronger energy future for Ontario.**

The recommendations contained in OEA papers represent the advice of the OEA as an organization. They are not meant to represent the positions or opinions of individual OEA members, OEA Board members, or their organizations. The OEA has a broad range of members, and there may not always be a 100 percent consensus on all positions and recommendations. Accordingly, the positions and opinions of individual members and their organizations may not be reflected in this report.

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## EXECUTIVE SUMMARY

The Ontario Energy Association (OEA) welcomes this additional opportunity to participate in the Ontario Energy Board's (OEB) consultations on utility remuneration and distributed energy resources. These are significant issues, and policy or regulatory actions that are taken related to these issues will have a significant impact on Ontario's energy system, utilities, market participants and consumers.

The OEA makes the following recommendations on what the objectives, specific problems or issues to be addressed and guiding principles should be for each of these initiatives:

### *Align with OEB and Provincial Energy Sector Objectives*

The main objectives for these initiatives should be to:

1. Align with the provincial government's vision for Ontario's energy sector;
2. Align with the OEB's legislative objectives with respect to electricity and gas; and,
3. Address the largely fixed/committed cost structure of the Ontario electricity system.

### *Coordination with the IESO*

This consultation will be considering issues that are also of significant interest to the IESO as Ontario's electricity system planner and wholesale market operator, including the IESO's Innovation Roadmap, Regional Planning, and Market Renewal Program.

### *Optimizing Existing Infrastructure vs. Stranded Assets*

These initiatives should evaluate when and where decisions may result in stranded assets, when they enhance the existing system, and when they provide low cost alternatives to more expensive solutions.

### *Role of Natural Gas*

DER solutions may intersect multiple energy sources. It will be necessary to clarify issues related to the natural gas sector as part of this process to allow participants to respond to those identified concerns.

### *Definition, Benefits, and Impacts*

The OEB will need to assess the benefits, costs and impacts of DERs, these concepts need to be defined and be measured, which will require a working definition of a DER. Further, research should be undertaken on the implications for Ontario's customers of an acceleration of DERs.

### *Innovation and Competition*

Consideration should be given to the future roles and business models for utilities and energy service providers. These initiatives should include a discussion on the role of the utility and the role of the energy service provider, to ensure that ratepayers are extracting proper value from the distribution system.

### ***Customer-Centric Outcome-Based Approach***

The OEB should ensure that customers benefit from these initiatives through (1) lower energy bills and lower energy system costs; (2) increased energy system reliability; (3) increased energy system safety; and/or (4) increased energy service quality.

### ***Evidence-based***

Policy decisions should be coordinated (considering electricity and gas), transparent, and reference publicly available facts and information that justify the development and evaluation of options and decisions as much as possible.

### ***Transparency***

The evidence developed in these initiatives should be established and presented in a clear and transparent manner so that the OEB and stakeholders can determine and develop policy options that promote regulatory and economic efficiency, take into consideration direct and indirect consequences, and support the broader vision and objectives for the energy sector and consumers of the Ontario government, OEB and IESO.

### ***Fairness***

The OEA believes the following fairness issues will arise in this consultation that should guide policy development and evaluation of options:

#### ***Technological Neutrality***

As resources continue to mature and become more widespread, the Ontario regulatory framework should adopt a technologically neutral approach to supporting DER investments by utilities, consumers, and new market entrants.

#### ***Respecting Previous and Pending Applications***

As the DERs and remuneration reviews are taking place, they should not prejudice existing rate (or other) applications before the OEB for consideration (or already approved by the OEB) nor should the ability of parties to make rate (or other) applications be hindered during the review process.

## INTRODUCTION

On September 26, 2019 the OEB issued a letter stating that “the OEB has elected to make provision for written comments from stakeholders that summarize their views on what the objectives, specific problems or issues to be addressed and guiding principles should be for each of these initiatives.”

The OEA welcomes this additional opportunity to participate in the OEB’s consultations on utility remuneration and distributed energy resources (DERs). These are significant issues, and policy or regulatory actions that are taken related to these issues will have a significant impact on Ontario’s energy system, utilities, market participants and consumers.

## RECOMMENDATIONS

### Objectives

#### Align with OEB and Provincial Energy Sector Objectives

The main objectives for these initiatives should be to:

1. Align with the provincial government’s vision for Ontario’s energy sector;
2. Align with the OEB’s legislative objectives with respect to electricity and gas; and,
3. Address the largely fixed/committed cost structure of the Ontario electricity system.

A clear articulation by the provincial government of its long-term vision for the sector is necessary to allow the OEB to achieve the proper outcomes for this exercise. For example, there are two potential range of visions the provincial government may have for the sector:

1. Protect the public’s investment in grid infrastructure and ensure the long-term health of that infrastructure (e.g. deploying DERs where they optimally supplement existing infrastructure and deliver the lowest cost)?
2. Accelerating DERs to transition to a more distributed grid that incents customers to adopt alternatives?

Further, certain of the OEB’s legislative objectives with regards to both electricity and gas that should drive the OEB’s approach to these initiatives.

With respect to electricity, the most relevant objectives in the Ontario Energy Board Act (the Act) are:

1. To inform consumers and protect their interests with respect to prices and the adequacy, reliability and quality of electricity service.

2. To promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and to facilitate the maintenance of a financially viable electricity industry.

With respect to gas, the most relevant objectives as stated currently in the Act are:

2. To protect the interests of consumers with respect to prices and the reliability and quality of gas service.
3. To facilitate rational expansion of transmission and distribution systems.
- 5.1 To facilitate the maintenance of a financially viable gas industry for the transmission, distribution and storage of gas.

The above objectives are critical because these initiatives have broad potential consequences for Ontario's energy system.

### Coordination with the IESO

This consultation will be considering issues that are also of significant interest to the IESO as Ontario's electricity system planner and wholesale market operator, including the IESO's Innovation Roadmap, Regional Planning, and Market Renewal Program. The strong need for coordination is underscored by the IESO's recent release of the first paper in its Innovation and Sector Evolution White Paper Series, *Exploring Expanded DER Participation in the IESO-Administered Markets, Part 1: Conceptual Models for DER Integration*, which sets out to "identify high-level options for integrating DERs into the IESO-administered markets."<sup>1</sup>

An energy future that is DER-centric will also raise questions about the IESO's future roles and responsibilities regarding system planning, resource procurement, and wholesale market operation. Therefore, the OEA believes that the OEB and IESO should coordinate their efforts in this area, and the OEB should make the IESO a partner in the deliberation of utility remuneration and DER policies.

## Specific Problems or Issues

### Optimizing Existing Infrastructure vs. Stranded Assets

Most conversations about DERs invoke a discussion about the potential for stranded assets. A cost-effective approach that seeks to optimize the use of Ontario's existing electricity infrastructure (and minimizing stranded assets) to the extent that it is cost-effective to do so, is considered prudent public policy. The objective should be a resource mix that delivers the most reliable and safe electricity to customers at the lowest price. Enabling information about the system to all participants will ensure that the assets today are optimized with the assets of tomorrow. This is the best way to ensure cost effective energy services and reliable supply for Ontario's residential and business consumers and meet public policy objectives.

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<sup>1</sup> <http://www.ieso.ca/Get-Involved/Innovation/White-papers>



Therefore, these initiatives should evaluate when and where decisions may result in stranded assets, when they enhance the existing system, and when they provide low cost alternatives to more expensive solutions. The initiative should also analyze the impacts on customers of stranded assets and at what level of DER penetration stranded assets become an issue in Ontario, and where (geographically) this may begin occurring first. It is also important to understand how affected entities are responding as the industry evolves. Are they considering a DER-intensive future when making investments decisions?

Cost responsibility for stranded assets should also be explored. When a large capital investment has been made on behalf of a customer that is being amortized over a long time period, what is the customer's responsibility to pay for the asset if they intend to use DERs to reduce or eliminate their load? In Ontario, a large public investment has and is being made into central power production, transmission and distribution infrastructure. Answering that question may become more important if DERs begin to accelerate, and may have implications for utility remuneration, asset amortization rates and the obligation of utilities to make long-term investments in a high-risk environment. As noted above, making information at the distribution level public, such as heat maps, will enable DERs to be placed where it makes most sense to the customer and the distributor/system operator.

### Role of Natural Gas

Overall, it appears that neither the integration, impact and role of DERs involving Ontario's natural gas sector nor the remuneration of capital-intensive natural gas utilities under the current model has been given much consideration by the OEB as part of this policy initiative. The OEA submits that there is no reason for this consultation to be solely focused on electricity. DER solutions may intersect multiple energy sources. The OEB will need to clarify issues related to the natural gas sector that need addressing as part of this process to allow participants to respond to those identified concerns.

### Definition, Benefits, and Impacts

When does a DER benefit Ontario's grid system, and when does it have a negative impact? In order to assess the benefits, costs and impacts of DERs, these concepts need to be defined and be measured, including the definition of a DER. For example, does the OEB consider demand response and energy efficiency to be a DER? Will the OEB be considering the role of the natural gas system in providing DERs (e.g., CHP)? Considering these will influence how the OEB, the IESO and the provincial government set their policies and direction related to DERs.

An evolving energy system will have varying financial impacts on different customers (e.g., industrial, commercial, residential; low-income customers; urban v. rural). The OEB should undertake research on the implications for Ontario's customers of an acceleration of DERs (e.g., impact on Global Adjustment and the Regulated Price Plan). Many customers will be able to benefit from lower electricity bills through adopting DERs. However, in a fixed cost system, declining load may mean higher costs for those that remain on the grid or cannot reduce their consumption or demand. The impact of DERs on customers that do not have access to both electricity and natural gas fuel choices should also be considered

## Innovation and Competition

Consideration should be given to the future roles and business models for utilities and energy service providers. In the telecommunications sector, some large monopoly phone and cable companies were able to successfully transition into new technologies (wireless, internet, streaming services, etc.) while at the same time new service providers entered the sector.

However, in the energy sector, utilities face limitations in their ability to leverage their existing infrastructure to offer new business solutions to customers while new entrants face potential barriers to new competitive spaces in the energy sector. The engagement should include a discussion on the role of the utility and the role of the energy service provider, to ensure that ratepayers are extracting proper value from the distribution system. Will utilities evolve into load serving entities, or local system operators? What are the customer implications related to that? Will the OEB consider piloting innovative utility remuneration (e.g. revenue for providing transactional services to DERs) to assess their impact on customer value, system benefits, and utility investment decisions?

The OEA submits that the considerations above indicate that the OEB may wish use to use these initiatives to refine the OEB's approach to innovative projects broadly as well as reviewing its recently created Innovation Sandbox.

## Guiding Principles

### Customer-Centric Outcome-Based Approach

The OEB should be guided by the clearly defined outcome(s) it wishes to achieve from these initiatives. Primarily, the OEB should ensure that customers benefit from these initiatives through (1) lower energy bills and lower energy system costs; (2) increased energy system reliability; (3) increased energy system safety; and/or (4) increased energy service quality.

The outcomes selected should be measurable and the OEB should report on these outcomes as part of a pre-established policy evaluation process.

### Evidence-based

Policy decisions should be coordinated (considering electricity and gas), transparent, and reference publicly available facts and information that justify the development and evaluation of options and decisions as much as possible. Where possible, quantitative analysis should be used to assess materiality of issues/concerns identified. When policies from other jurisdictions are being used, the evidence should support the development of those policies within the Ontario context.

### Transparency

The evidence should be established and presented in a clear and transparent manner so that the OEB and stakeholders can determine and develop policy options that promote

regulatory and economic efficiency, take into consideration direct and indirect consequences, and support the broader vision and objectives for the energy sector and consumers of the Ontario government, OEB and IESO.

## Fairness

In addition, to considering distributional impacts (noted above), the OEA believes that other fairness issues will arise in this consultation that should guide policy development and evaluation of options:

### **Technological Neutrality**

New technologies, resources, and innovations that offer customers greater autonomy over their energy use will create additional issues for energy system planning and infrastructure. They will drive a shift towards decentralized, smaller scale, DERs, which can include renewable generation, energy storage, demand response, combined heat and power, and micro-grids.

As these resources continue to mature and become more widespread, the Ontario regulatory framework should adopt a technologically neutral approach to supporting DER investments by utilities, consumers, and new market entrants. This would allow a variety of potential participants to come up with solutions based on many different technologies.

Over time, depending on developments in underlying technologies and energy prices, there might be many different solutions adopted, based on local, regional, or temporary circumstances.

### **Respecting Previous and Pending Applications**

Additionally, as the DERs and remuneration reviews are taking place, they should not prejudice existing rate (or other) applications before the OEB for consideration (or already approved by the OEB) nor should the ability of parties to make rate (or other) applications be hindered during the review process.

For example, in a recent rate application by Energy+ Inc. (EB-2018-0028), the OEB did not approve Energy+'s proposal for a standby charge. The OEB's decision stated that:

The OEB acknowledges that the non-implementation of a standby charge means that TMMC would not be allocated real costs of Energy+ in maintaining sufficient capacity to ensure reliability of service in the event of failure of TMMC's LDG. However, it is important that any charge be developed with a methodology that accomplishes that goal in an efficient and understandable fashion so that all customers are protected while customer innovation is also encouraged. The current OEB Commercial and Industrial(C&I) consultation, followed by a subsequent OEB report should provide some guidance on the proper calculation of standby charges in circumstances of embedded generation that meet those objectives.<sup>2</sup>

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<sup>2</sup> <http://www.rds.oeb.ca/HPECMWebDrawer/Record/644939/File/document>

In the case above, the OEB's policy consultation mentioned in the OEB decision is still ongoing, and, in fact, is currently one of the "initiatives where stakeholder engagement activities are being deferred during transition" to a new OEB governance structure.<sup>3</sup> The OEA is of the view that policy consultations should not introduce such a high degree of open-ended uncertainty in applications.

A preferred approach would be to adopt a rules-based approach to regulatory approvals as suggested by the Advisory Committee on Innovation, which recommend that "A rules-based approach to regulatory approval should provide greater transparency and certainty in the sector."<sup>4</sup> For example, rules could be established that require the OEB to decide applications based on existing rules and/or standards and not defer decisions pending ongoing policy development initiatives (except in exceptional circumstances).

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<sup>3</sup> <https://www.oeb.ca/sites/default/files/OEBItr-Stakeholders-Policy-Consultations-20190619.pdf>

<sup>4</sup> <https://www.oeb.ca/sites/default/files/Report-of-the-Advisory-Committee-on-Innovation-20181122.pdf>  
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