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**ONTARIO ENERGY BOARD**

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**POLLUTION PROBE POST-OEB STAFF PRESENTATION SUBMISSION IN REGARD TO UTILITY REMUNERATION AND RESPONDING TO DISTRIBUTED ENERGY RESOURCES**

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 **Submitted by: Michael Brophy**

 **Michael Brophy Consulting Inc.**

 **Michael.brophy@rogers.com**

 **Phone: 647-330-1217**

 **28 Macnaughton Road**

 **Toronto, Ontario M4G 3H4**

 **Consultant for Pollution Probe**

Introduction

Pollution Probe has been an active participant in the above noted proceedings and has provided submissions, materials and a presentation to support the Board’s in its efforts to expand Distributed Energy Resources (DERs) in Ontario. Pollution Probe has coordinated with related stakeholders including municipalities to gighlight the need for stronger alignment with community energy planning, regional electricity planning, infrastructure planning/approvals and other related regulatory issues (e.g. DER). There is currently a disconnect that acts as an impediment to implementing meaningful local solutions and favors siloed approval of traditional pies and wires solutions. In order to keep up with industry and global technology changes and to meet the emerging needs of consumers, a change in approach is critical. Pollution Probe is not going to reiterate all the information it has provided previously in these proceedings and will focus primarily on submissions following the OEB Staff presentation on February 20, 2020.

In addition, Pollution Probe recently completed a relevant report entitled “Replacing Pickering: The Next Step in the GTA’s Clean Energy Transition, March 2020” which is available at the following link - <https://www.pollutionprobe.org/replacing-pickering/>. This report looks at demand side, supply side and storage options which reinforces the importance of DER (including energy efficiency) to Ontario’s future. DER solutions, including energy efficiency provide a more economically and environmentally sound solution for Ontario’s energy needs compared to more large single cycle natural gas plants. Distributed generation is lower cost from a system wide perspective provides incremental benefits such as system resilience (since power is generated or stored locally), reduced emissions (some solutions use gases currently being vented to the atmosphere) and lower costs to consumers (e.g. the City of London alone estimates that its consumers lose approximately $1.5 billion of benefits by importing energy). The time to start putting the required changes in place is clearly now.

Firstly, Pollution Probe would like to thank the OEB for their open, transparent and inclusive approach to consultation in these proceedings. The best solutions for Ontarians only come when silos are dismantled and innovative discussion encouraged. Board Staff did an excellent job of consolidating a large amount of stakeholder input to create the February 20, 2020 presentation. It clearly takes a lot of commitment, effort and organization to lay the issues out in an organized manner and in Pollution Probe’s view that was achieved.

It is important to take a holistic view since this initiative sets the tone and context for related proceedings such as DER Connections. It is important that the OEB put the right policy and tools in place now to enable the future changes to technology and energy system that Ontarians require. This will help the OEB “keep up” with sector evolution and consumer needs.

Pollution Probe generally agrees with the information and conclusions in the Board Staff presentation and has included some specific comments below.

Impetus for the Initiatives

Pollution Probe agrees with the Impetus for Initiatives that are outlined and these must not be understated. Change is happening now and accelerating. Ontario’s approach to DERs needs to adjust over the short, medium and long term to keep up with consumer energy needs and avoid inefficient and/or stranded capital investments. The OEB’s mandate provides the single largest regulatory barrier or opportunity to meet these challenges. Billions of dollars of capital and operational funds are reviewed and approved by the OEB which directly impacts which energy is used across Ontario’s communities and sends strong signals to investors on what energy investments will be rewarded. IESO provides guidance related to regional planning through their IRRP process, but this acts only as a recommendation for bulk system electricity regional planning purposes and does not consider broader energy needs of consumers, nor adequately evaluate local DER solutions as an alternative to traditional wires solutions. The information that the OEB needs to make prudent decisions in the best interests of consumers far exceeds what is currently included IRRP documents.

It is recommended to explicitly include the important relationship between DER and municipal energy plans. Municipalities across Ontario are implementing against their plans and attracting investment to support plan implementation. Utility investments needs to support and align with these plans to be efficient and effective.

Guiding Principles

Using the term “consumer” is a positive change which encourages integrated solutions and avoids inefficient silos of issues and solutions by fuel type. It also enables the recognition of future customers which will be making choices about equipment and represent one of the most cost-effective options for DER (e.g. new condos).

Pollution Probe recommends an adjustment to the third bullet on slide 13 - “It encourages optimal use of existing assets when economically efficient”. If an asset is no longer economically useful it should not be retained at the expense of Ratepayers.

On slide 14, the item related to Economic Efficiency and Performance should be simplified to: “The regulatory framework focuses on cost-effectiveness, reliability of service, and long-term value for consumers”.

Preliminary Needs Statement

This addition helps to bring more clarity to what problems need to be solved. It needs to be flexible enough to address issues as they come up. The Opportunities, Challenges and Needs Statement is a good starting point. It also needs to recognize that some solutions will come from outside regulated utilities and where those solutions are more cost-effective for Ratepayers, they should be endorsed. As the Utility Remuneration elements are fleshed out, hopefully the right mix of carrots and sticks can be developed to accomplish this. Pollution Probe looks forward to contributing to those discussions.

Objectives

Pollution Probe generally agrees with the Objectives outlined by Board Staff. There was discussion and general agreement that the term “avoid stranded assets” would need to change since it is interpreted to mean retain assets at all costs, which is clearly not in the interest of Ratepayers. A utility is not a risk free monopoly business and utilities needs to prudently assess the risks of assets becoming stranded and know that there are consequences to imprudent planning and expenditure. Leveraging existing assets to the extent practical when it is economically prudent to do so makes sense. One option for better wording could be “Optimize Existing Infrastructure: ensure that existing assets are used to their full potential if cost-effective”.

It may be more efficient to merge “Consider all possible solutions”, “Determine true value of DER” and “Provide clear investment signals” since they all address similar issues. The real outcome is to “provide a framework where DER solutions can transparently compete against traditional wires and centralized solutions.

Issues

Pollution Probe supports the broad definition of DER as outlined on slide 37 of the Board Staff deck. Energy efficiency and DR should be included in definition as a system resource that can be used in system planning. Strategic demand reduction is a developing idea of location and time based incentives for reducing demand to avoid grid infrastructure and is widely used in the US and hence should be added. Similar to supply options, DR and energy efficiency result from investment and have a direct impact on the energy system demand and reduced need for capital investment.

It is less practical to treat energy efficiency and DR as separate and related items to DER. If these lements are not included in the definition that the OEB uses, it creates risks that some cost-effective options may not be appropriately considered as system options are compared.

LDCs need to transparently consider all reasonable alternatives and community energy plans need to be better included during planning and approvals. To appropriately value DER the Board will need transparent information to provide apples-to-apples costs and benefits related to typical and emerging DER solutions. It would be difficult to bring all the required parties together to work through those scenarios and requiring each utility to file DER alternatives would be duplicative. The OEB is well positioned to do a scan of information that already exists to support that data need. This also aligns well with the information being collected by municipalities, developers and project proponents to assist them in implementing community energy plan solutions.

Pollution Probe recommends that the OEB develop an Advisory Group to help identify what information is needed and provide recommendations on additional studies that would provide the information needed to make appropriate DER alternative comparisons.

Pollution Probe agrees with Staff’s Preliminary Issues List as outlined on slide 49. Close collaborations will be required, including with DER Connections. There are many other moving parts at the OEB (and IESO) that will also need to be linked in. These include utility requirements to do effective asset planning, IRPs, and what alternatives need to be properly assessed during rate cases or infrastructure (e.g. leave to construct) planning and approvals.

Scope

Pollution Probe agrees with the Utility Remuneration Draft List on slide 51 and has a few recommended additions. Specific scorecard metrics would make it more transparent whether DER outcomes were really being met. These could include things like:

* # incremental DER projects completed in the utility’s service territory
* % of energy met through DER
* % of DER installed and funded through non-Ratepayer sources
* % of DER installed in alignment with the local municipal energy plan

The OEB could also commission an objective assessment of the current regime and its successes/failures, to provide a roadmap of what is working and what is not. This would need to include a process to engage stakeholders, including municipalities and those that work closely with communities on these issues.

Performance incentives should include the methods for shared savings for non-wires solutions (reward LDC support to more-cost effective alternatives that reduce Ratepayer funded capital). Innovation will need to be treated separately from day-to-day expectations to enable testing of new approaches on a pilot basis to inform future regulatory changes.

Pollution Probe agrees with the Responding to DERs Draft List on slide 52 and has a few recommended additions. Including the ability for DER to align with policy is an important element and is commonly done with other similar OEB initiatives. Provincial policy continues to support community energy planning as a means to effectively coordinate many planning issues within a municipality (reduced costs, resilience, economic development, air quality, etc.). Emissions reductions and environmental attributes as outlined in the Ontario Environment Plan can also be supported. The DSM approach that the Board developed (initially in EBO 169) and is promoted across North America provides a manner to value benefits to society that are achieved through utility results.

The OEB will likely want to know how to ensure that alternative (e.g. non-wire solutions) are optimized and properly compensated for the benefit that they bring to consumers and the energy system in Ontario. This could include promotion of switching to cleaner energy solutions when they are more costs effective from a total system cost.

In 2017, the Ontario Energy Board (OEB) issued its Strategic Blueprint: Keeping Pace with an Evolving Energy Sector (Strategic Blueprint) which set out its commitment to modernize its approach to regulation in order to keep pace with an evolving energy sector. The principles outlined in that plan remain relevant today. The Strategic Blueprint reflects the OEB’s recognition of significant changes underway and set out four strategic goals:

* Utilities are delivering value to consumers in a changing environment
* Utilities and other market participants are embracing innovation in their operations and the products they offer consumers
* Consumers have confidence in the oversight of the sector and in their ability to make choices about products and services
* The OEB has the resources and processes appropriate for the changing environment

To the extent that the plan the OEB develops for DER can also stand the test of time, it will continue to deliver value to consumers long into the future.

Consultation Process

As mentioned above, Pollution Probe congratulates the OEB for an open and transparent process for what can be a difficult and challenging set of issues. Breaking down silos is essential and providing financial support for broad stakeholder inclusion is helping to work through issues in a more innovative and inclusive manner. Going forward, it will continue to be important to leverage value across the sector, support stakeholder participation and provide resources to develop research papers, summaries and other tools.

Direct and indirect consumer input remains important and Pollution Probe recommends that specific wording be added to ensure that collaboration extend beyond ministries and agencies to groups that actively work on DER issues. Municipalities and their partners are at the front lines of developing and implementing community energy plans and coordination with those activities is essential. There are 444 municipalities across Ontario and several participated in these proceedings through associations, the Clean Air Partnership and/or Pollution Probe. The City of Ottawa was able also to share input by making a presentation directly. We encourage the OEB to continue to seek input on behalf of municipalities that have completed community energy plans and are implementing them in order to manage energy needs in their communities in a coordinated manner.