

Elson Advocacy

September 12, 2019

BY COURIER (2 COPIES) AND RESS

Ms. Kirsten Walli

Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2700, P.O. Box 2319
Toronto, Ontario M4P 1E4

Dear Ms. Walli:

Re: EB-2019-0207 - Distributed Energy Resources Connections Review Initiative

We are writing on behalf of Environmental Defence to provide initial comments on the above initiative. Environmental Defence strongly supports this initiative as a potential avenue to encourage Distributed Energy Resources, which can help make our energy systems more efficient and lower energy bills for consumers across the province. These comments focus on ensuring that those important goals are achieved.

Objectives: Focus on *Encouraging* DER

Question number one asks: “Are the objectives for the DER Connections Review initiative clear?” Environmental Defence recommends that the objectives more explicitly focus on *encouraging* Distributed Energy. In particular, we recommend that the following objective be included:

to encourage DER through prompt connection timelines, streamlined processes, standardization, a ceiling on connection costs, and removal of connection barriers

This kind of encouragement of DER is consistent with the OEB’s Strategic Blueprint, which notes that DERs “present utilities with opportunities to serve customers in ways that may be less expensive and more flexible than traditional infrastructure investment.”¹ The OEB’s Advisory Committee on Innovation also noted the potential role of DERs in “optimizing the operation of the distribution network and the broader system of which it is a part” and the need to encourage DER.²

The specific wording suggested by Environmental Defence is meant to make it clear that this initiative is about more than clarity and standardization. It is intended to facilitate the adoption of

¹ Ontario Energy Board, *Strategic Blueprint: Keeping Pace With an Evolving Energy Sector*, 2017-2022.

² Advisory Committee on Innovation, *Report to the Chair of the Ontario Energy Board: Actions the OEB can take to advance innovation in Ontario’s energy sector*, November, 2018 p. 12.

cost-effective DER and address potential barriers. For example, we have proposed not only that timelines be set, but that prompt timelines be put in place. We have also proposed not only that processes be standardized, but that they be streamlined. This wording is intended to communicate the OEB's desire to facilitate innovation that can lower energy costs for consumers.

It also important to emphasize the need to *encourage* DER because utilities currently do not have sufficient financial incentives to facilitate DER connections. The Advisory Committee on Innovation highlighted this lack of incentives as key problem to be addressed going forward.³ In fact, utilities have a perverse financial *disincentive* to facilitate DER connections because DER can serve as an alternative to infrastructure investments on which utilities earn their return.⁴ Greater cost-effective DER can mean fewer financial returns for utilities.

From an organizational perspective, utilities have a disincentive to facilitate DER because it is different from how utilities have operated in the past. DER can be considered to be a part of a new way of doing things, which requires additional expertise and openness that are often present, but not always present.

The disincentives faced by utilities and their managers to implement DER is a broader problem that requires solutions beyond this initiative. However, it is an important factor to recognize here because it is relevant to the objectives of this initiative. One of the ways to overcome these disincentives is to *encourage* DER connections through prompt connection timelines, streamlined processes, standardization, a ceiling on connection costs, and removal of connection barriers.

Finally, DER can be encouraged without sacrificing reliability, safety, efficiency, and other similar such factors. Noting that DER should be encouraged is not saying that those other factors should be disregarded. It is clear from the OEB letter initiating this process and the report of the Advisory Committee on Innovation that DER can be encouraged in ways that are cost-effective, safe, and reliable.

Issues: Scorecard, Recognizing DER Benefits, and Incentivizing DER

Question number two asks: "Have staff identified the right topics for the DER Connections Review and do stakeholders have any specific concerns that they want to identify?" Environmental Defence recommends that the following additional issues be addressed:

LDC Scorecard or Other Reporting

This initiative should consider amending the LDC scorecard to address DER connections through a new or amended measure and target. The current scorecards include measures that reward utilities for operational cost effectiveness. These measures could conflict with the steps that utilities need to take to streamline and speed up DER connection processes. In other words,

³ *Ibid.* p. 10.

⁴ *Ibid.*

minimizing operational costs could have negative impacts on DER connections. To address this issue, the scorecards could be amended to address DER connection facilitation and compliance.

Adding measure and target to the scorecards would assist the Board and stakeholders in monitoring compliance with respect to new DER rules. However, if these amendments are not made, we recommend that other reporting tools be considered. For now, we recommend that this issue be included in the scope of this process.

Recognising DER Benefits

Environmental Defence recommends that all DER benefits be recognised and accounted for when deciding on issues relating to cost responsibility for connections. There are significant benefits to DER, including the following described by Tim Woolf of Synapse Energy:

“Distributed energy resources provide benefits to the utility system, reducing the costs associated with generation, distribution, transmission, and ancillary services. In addition, distributed energy resources may reduce utility financial and customer service costs, and enhance market competition and efficiency, while reducing risk. These benefits reduce the costs associated with the provision of electricity supply and related services, and thereby ultimately reduce the cost of electricity to all customers.”⁵

For further details on Distributed Energy Resources benefits, see the full Synapse Energy report at <https://www.synapse-energy.com/sites/default/files/Final%20Report.pdf>.⁶

Although some DER benefits require the use of proxies or other methods to estimate and account for their value, doing so is more accurate than ignoring those benefits. As noted by Tim Woolf: “DER impacts should not be excluded or ignored on the grounds that they are difficult to quantify or monetize. Approximating hard-to-quantify impacts is preferable to assuming that those costs and benefits do not exist or have no value.”⁷

DER benefits should be accounted for to ensure efficiency when allocating cost responsibility. If costs are accounted for without sufficiently accounting for benefits, this will serve as an unjustified DER disincentive and result in a less efficient, sub-optimal outcome.

As part of the efforts to ensure that all DER benefits are accounted for in the allocation of connection costs, we suggest that the cost responsibility aspect of this initiative be coordinated with the ongoing initiative on responding to distributed energy resources.

⁵ Tim Woolf, Synapse Energy, *Benefit-Cost Analysis for Distributed Energy Resources*, Prepared for the Advanced Energy Economy Institute, September 22, 2014 ([LINK](#)).

⁶ *Ibid.*

⁷ *Ibid.*

Incentivize DER and Coordinate Reviews

Although this proceeding relates to only a subset of the issues relating to DER – i.e. connections – we believe it is important to keep in mind the need to incentivize the implementation and facilitation of DER by utilities. This need was described as follows in the report of the Advisory Committee on Innovation:

2A. Remunerate utilities to make them indifferent to conventional or alternative solutions, including when other parties own and provide the alternative solution. Considerations will include, among other things, meaningful incentives and moving away from traditional rate base regulation

Utilities should be encouraging innovative solutions, including DERs, to meet their system needs when they are cost effective to do so. However, some utilities say, under the current revenue model, that they are not rewarded equally for their own versus alternate solutions. This arises from the fact that utilities earn a rate of return on capital but not on operating expenses. Some innovative solutions involve operating rather than capital expenditures – for example, a contract for demand-response to relieve congestion.

...

Removing any incentive for the utility to prefer one kind of spending over another should also provide customers and service providers more confidence that innovative solutions will be considered equally in the utility's planning process. The OEB should assess the range of options on their merits in a manner that considers both benefits and potential risks.⁸

The problem is simple. Utilities earn profit on supply-side infrastructure projects. Although, DER can be a more cost-effective alternative, utilities have a financial *disincentive* to implement or facilitate that more cost-effective solution. The result is higher energy bills for consumers. This needs to be fixed.

Although this broader issue is largely beyond the scope of a review on DER connections, we believe it is important to recognise this incentive problem and to ensure coordination between this review and other OEB reviews that touch on this issue, including the responding to distributed resources initiative and future processes relating to commercial and industrial rate design updates.

Conclusion

In conclusion, Environmental Defence recommends that:

⁸ Advisory Committee on Innovation, *Report to the Chair of the Ontario Energy Board: Actions the OEB can take to advance innovation in Ontario's energy sector*, November, 2018 p. 10-11.

1. The following objective be included in this process: “to encourage DER through prompt connection timelines, streamlined processes, standardization, a ceiling on connection costs, and removal of connection barriers”;
2. This process examine a potential LDC scorecard amendment or other reporting relating to DER connection performance;
3. All DER benefits be recognised and accounted for when deciding issues relating to cost responsibility for DER connections; and
4. This initiative be coordinated with other related OEB initiatives as part of efforts to incentivize utilities to implement DER where it is the most cost-effective solution.

Thank you for the opportunity to provide these comments. Please do not hesitate to contact me if anything further is required.

Yours truly,

A handwritten signature in blue ink, appearing to read 'K. Elson', written in a cursive style.

Kent Elson

Encl.