

**EB-2023-0195**

**Toronto Hydro-Electric System Limited  
Application for electricity distribution rates beginning January 1, 2025**

**AMPCO Submissions September 18, 2024**

Toronto Hydro-Electric System Limited (Toronto Hydro) filed an application with the Ontario Energy Board (OEB) on November 17, 2023, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the rates that Toronto Hydro charges for electricity distribution, beginning January 1, 2025, and for each following year through to December 31, 2029.

On August 16, 2024, Toronto Hydro filed a proposed Settlement Agreement which contained a substantial settlement of the issues within the Application, with Toronto Hydro's proposed Innovation Fund remaining unsettled.

AMPCO's makes submissions on the following unsettled Issue 2.4: Is the proposed Innovation Fund appropriate?

Innovation Fund Proposal

Toronto Hydro proposes to establish an Innovation Fund to support the design and execution of innovative pilot projects over the 2025-2029 rate period in the amount of approximately \$16 million (calculated based on 0.3% of Revenue Requirement) to be collected through a rate rider. Toronto Hydro proposes this approach to funding rather than through base rates, to provide greater transparency to ratepayers on the bill and flexibility to the utility to determine how the funds should be allocated across capital and operational expenditures. Toronto Hydro also proposes to establish a new 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.<sup>1</sup> The pilot projects are to be focused on testing of innovative technologies, advanced capabilities, and alternative strategies that enable electrification grid readiness and facilitate DER integration.<sup>2</sup>

AMPCO has concerns with Toronto Hydro's funding proposal as follows:

- Toronto Hydro's proposed 2025-2029 Investment Plan (\$3,568.7 M)<sup>3</sup> before the OEB responds in a significant way to the current and future transformation of the energy sector,

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<sup>1</sup> Exhibit 1B Tab 4 Schedule 2 p.1

<sup>2</sup> Exhibit 2B Section A p.32

<sup>3</sup> EB-2023-0195 Toronto Hydro Settlement Proposal 20240816 p.20

including OEB's expectations for distributors to modify their planning and operations to prepare for DER impacts on their systems. The Settlement Proposal contains hundreds of millions of dollars in forecast capital spending, to enable city electrification and grid modernization to support customers' electrification objectives and support the connection and management of DERs.<sup>45</sup> Toronto Hydro put forward many projects and programs outside of business as usual such as Non-Wires Solutions. Toronto Hydro characterizes its investment plan as the least-regret option<sup>6</sup>, given the pace and nature of electrification required to decarbonize the economy remains unsettled. In this context, it seems to AMPCO that the need for additional funding for innovation beyond what is proposed to be built into base rates has not been justified.

- Toronto Hydro's Innovation Fund supports utility investment in innovation work that is more early stage, exploratory and developmental in nature, where the outcomes are less certain and the benefits of individual projects may not be immediate or certain, and some initiatives may prove to be more or less fruitful than others.<sup>7</sup> Toronto Hydro's funding proposal is risky, and although there is the potential for significant benefits, they are not certain.
- OEB approval of Toronto Hydro's request would set a precedent resulting in many if not all utilities in the Province making similar requests for incremental funding for innovation projects, most likely leading to duplicate efforts which would not be in the best interest of customers. AMPCO estimates that if all distributors in the province made requests for incremental funding equal to 0.3% in Revenue Requirement, the overall cost would be well over \$100 million.<sup>8</sup>
- In AMPCO's view, the issue of electricity distributors having access to incremental revenue for innovation projects should be decided by the OEB in a generic proceeding, not in a stand-alone request. One-offs can prove costly and result in duplication not only with other utilities but commercial entities who are also testing innovative technologies and solutions, in an environment that allows competition and drives innovation at a potentially lower cost. A Generic Proceeding has the potential to minimize duplication and facilitate utility innovation activities that are adopted more widely across the province.
- The Independent Electricity System Operator (IESO) currently administers a Green Innovation Fund (GIF) in collaboration with the OEB that supports a variety of projects including the development of new innovative technologies to help balance the grid. Toronto Hydro has an active project funded by the GIF in the amount of \$3,960,000 contracted in

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<sup>4</sup> Toronto Hydro Settlement Proposal 20240816 p.19

<sup>5</sup> Exhibit 2B Section A p. 27-34

<sup>6</sup> Exhibit 2B Section A

<sup>7</sup> Exhibit 1 Tab 4 Schedule 2 p. 4

<sup>8</sup> 2020 Yearbook p. 3– 2020 Distribution Revenue = \$3,897,073,729 \*0.3% = \$116.9 million

2021.<sup>9</sup> Other utilities have accessed this tool. Essex received just over \$8 million for a 2021 project that intends to demonstrate the operation of a local market run by a Distribution System Operator (DSO). Utilities evolving towards a DSO model such as Toronto Hydro<sup>10</sup>, stand to benefit from this work. It's unclear how this information is being used and what level of additional funding will be available through the IESO's GIF moving forward.

- Toronto Hydro notes that Enbridge Gas Inc. has recently proposed an Energy Transition Technology Fund (ETTF) to advance research, development, and commercialization of low-carbon technologies. The ETTF allocates \$25 million, or approximately 0.4% of the test year revenue requirement, to the advancement of low-carbon technology innovation.<sup>11</sup> The OEB has not yet made a determination on Enbridge Gas' request.
- Toronto Hydro has proposed a Governance Framework that in AMPCO's view requires modifications and strengthening with respect to accountability should the OEB accept Toronto Hydro's proposal. Toronto Hydro does not expect there to be a prudence review of the costs and benefits of the pilots it plans to undertake.<sup>12</sup> This is not appropriate.
- Toronto Hydro has proposed flexibility to the utility to determine how the funds should be allocated across capital and operational expenditures. AMPCO does not support this flexibility as it will add to the cost. If approved by the OEB, the fund should only be allocated to operational expenditures.

AMPCO supports innovation in the sector and the need for utilities to respond to the transformation of the energy sector. However, in consideration of the above issues, AMPCO cannot support Toronto Hydro's proposed Innovation Fund Proposal.

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<sup>9</sup> Strategic Area: Enabling Non-Wires Alternatives, Wholesale Market Integration, Transmission-Distribution Coordination

<sup>10</sup> Ex 2B Schedule A p.31

<sup>11</sup> EB-2022-0200, Enbridge Gas Inc. Application, Exhibit 1, Tab 10, Schedule 7 (October 31, 2022).

<sup>12</sup> 1B-CCC-46 (d)