

Energy
Overcoming Market Barriers to Energy Storage in Ontario

LRC/Cabinet December 11, 2017	Effective Date July 1, 2018
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Summary of Proposal

This proposal is consistent with government direction.

Context

Global adjustment (GA) is a cost recovery mechanism that enables contracted or regulated electricity generation costs and other system costs that are not recovered from wholesale market revenues to be recovered from all Ontario electricity consumers.

Under O. Reg. 429/04 of the *Electricity Act, 1998*, there are two types of electricity consumers:

- Class A entities are generally larger facilities that pay GA based on their contribution to five highest provincial peaks (i.e., where provincial electricity demand is the highest) during a year.
- Class B entities are all other facilities that pay GA based on the volume of electricity they consume each month.

Energy storage facilities have the ability to consume electricity like a load. They also have the ability to release electricity to the grid like a generator. This presents these facilities an economic opportunity to exploit price differentials by discharging electricity when prices are high, and charging when prices are low.

Class A energy storage facilities can currently avoid paying GA by not consuming electricity during one of Ontario's five yearly peaks.

Class B energy storage facilities must pay GA for all electricity consumption. When this electricity is released to the grid, the end user of this electricity must also pay GA on that electricity. This results in "double counting" of GA on electricity from these energy storage facilities.

Proposal

To eliminate double counting of GA on electricity from energy storage facilities, the Ministry of Energy (ENERGY) is seeking approval to amend O. Reg. 429/04 to define energy storage facilities as “stand-alone” -- not connected to a generator or a load – and to charge GA on a net consumption basis (as opposed to a gross consumption basis, as it is currently).

Cabinet Office Analysis

The proposed regulatory amendments intend to treat certain energy storage facilities that are connected to the grid more fairly in the application of GA. This may incent greater participation by energy storage facilities in Ontario’s electricity market.

The proposal responds to the 2017 Long-Term Energy Plan (LTEP), which states that the government is updating regulations to address market barriers, including addressing how the GA is charged for energy storage projects. The treatment of GA has been cited as a barrier to energy storage deployment in Ontario by the Ontario Energy Board (OEB) Energy Storage Working Group (2014 report), as well as independent research.

The Independent Electricity System Operator (IESO) and the OEB (agencies of ENERGY) are responsible for ensuring that energy storage facilities operate in compliance with all applicable regulations, codes, and market rules. To update codes, market rules, and other processes related to the proposed regulatory amendments, these agencies would incur limited administrative costs, which would be recovered through existing rates charged to electricity consumers.

Local distribution companies (LDCs) would incur some costs to adapt their billing processes for eligible class B storage facilities, which may be added to existing rates. All LDC expenditures are subject to OEB oversight through the rate application process.

The regulatory amendments were posted on the Regulatory Registry from October 27 to November 24, 2017. Toronto Hydro and the Electricity Distributors Association expressed support for the amendments. Energy Storage Canada (Canada’s sole industry association dedicated to energy storage) believes that energy storage should be exempt from GA entirely. However, in ENERGY’s view, this approach would constitute a subsidy and be unfair to other electricity market participants, who are required to pay GA on any electricity they consume. Energy storage facilities ultimately act as a “net consumer” of electricity, since they lose some of the electricity they store due to technical inefficiencies.

ENERGY recommends a reactive communications approach that would include Qs & As, key messages, and an issues management plan.

There are no anticipated risks in relation to this proposal, including its implementation by the IESO and OEB. If approved, the regulatory amendments would come into effect on July 1, 2018.