CCRE Lunch Panel - Fair Hydro Plan and Market Reform

Cynthia Chaplin

- I've been asked to make a few comments on the impact of the FHP on market reform.
- One of the key areas of market reform is the IESO's market renewal project. I don't foresee that there are any significant impacts of the FHP on that initiative – and that's not where I've been asked to focus my attention.
- Other areas of potential market reform have been identified by Mowat in their recent report: ***Emerging Energy Trends: REGULATORY RESPONSES TO ONTARIO'S ENERGY FUTURE.*** The report focusses on three themes:
  - Regional planning process – David McFadden is covering impact of FHP on energy planning – so I have no comments on that, other than to say I know the IESO and the OEB are both squarly behind this process.

  I'll cover the other two themes:
  - Utility regulation and business model
  - DER ratemaking

Impact of FHP on DER

- The FHP lowers electricity rates/bills in the short term – thereby reducing the customer's economic incentive to adopt DER as a means of avoiding costs.
- If you believe the extended amortization underlying the FHP is flawed, then you will conclude that the changed economics for DER is a market distortion – so one change in the system is cascading and affecting other decisions – perhaps adversely from a system perspective.
- Perhaps one can argue that there is currently a distortion in the overall market that affects the customer's DER decision. The current construct for recovering GA implies that one can avoid it entirely and remain connected to the grid for both the class A (who are levied on the basis of contribution to peak) and class B who are levied per MWh. So the installation of the DER could reduce these volumes to zero. Remaing connected to the grid provides all the

reliability benefits that back the DER if it fails. Thus assets that provide benefit are not being paid for because of this distortion. This is the basis of the current business case for DER – avoidance of GA. This results in what would otherwise be "stranded assets" if it were not for the fact that the remaining customers who may not be able to install DER are be burdened with these additional costs. This will likely not be sustainable and rate structures will need to be adjusted to better reflect cost causality. This will in turn significantly impact the business case for DER because fewer costs will be avoided.

- However the shift in the economics may be more of a timing issue – the costs being delayed by FHP will find their way into the system later, perhaps at a time when there will be other cost increases working through as well (e.g. Darlington [redacted] refurbishments). So the economics of DER may be even stronger in the future when rates inevitably rise.
- There are also other motivators for DER – customer control for example. And not all customers will see the 25% decrease – so drivers for DER will remain for some customer types

Impact of FHP on utility regulation and distributor business model

- Adoption of DER will be a driver for changes in the regulatory framework and the utility business model. If DER adoption slows then there will be less pressure to address the regulatory issues. Perhaps this is a good thing – buys some time to address these tricky issues in a comprehensive and coordinated way.
- However, depending upon the trajectory of prices, it might make the tipping point more abrupt in the future – so not a time to be complacent.
- FHP also contains commitment to bill increases limited to inflation for 4 years: Don't know what the intention is there in terms of other parts of the bill – e.g. delivery charges.
- Taxpayers are going to subsidize high distribution cost rural customers through RRRP. This will reduce the risk of grid defection by customers – but it also subsidizes potentially inefficient systems.
- Setting DER rates:

- Moving from feed-in tariff to net metering reduces the prices paid and makes the system technology-neutral – but is still blunt and inaccurate tool. It doesn't account for location, system services, ancillary services, avoided energy or infrastructure costs.
- DER rates is a good job for a regulator like the OEB – with high-level objectives guided by government perhaps, and expert input from IESO, and challenge/input from stakeholders through public process, based on regulatory principles