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Ministry of Energy, Northern Development and Mines
77 Grenville Street
7th Floor
Toronto, Ontario
M7A 2C1

Submitted via Environmental Registry Comments

Re: Changes to Ontario's Net Metering Regulation to Support Community-Based Energy Systems

Toronto Hydro-Electric System Ltd ("Toronto Hydro") is the local electricity distribution company (LDC) for the City of Toronto. It has nearly 770,000 customers and delivers about 19% of the electricity consumed in Ontario.

On October 8, 2020, the Ministry of Energy, Northern Development and Mines ("MENDM") proposed amendments to Ontario's net metering regulation that would allow for community net metering demonstration projects. As part of this posting, the MENDM invited comments from affected stakeholders, particularly with regard to potential benefits, impacts, and costs related to the proposed regulatory changes and community net metering ("CNM") demonstration projects.

Context

Toronto Hydro has thoroughly reflected on this proposal. Notwithstanding the fact that the scope, as presented, is for demonstration projects only, the promise of pilot projects undoubtedly raises the expectations of a broader rollout and a perceived avenue to lower costs for proponents of such arrangements. The level of development in the City of Toronto would no doubt make those expectations even more acute within Toronto Hydro's service territory. Accordingly, the remarks below are rooted in Toronto Hydro's assessment of the expected outcomes were this framework implemented more broadly than the proposed scope for pilots.

These perspectives are further informed by Toronto Hydro's recent history and experiences meeting customers' expectations with regard to electricity distribution. In March of this year, Toronto Hydro implemented a rate reduction of 17.4% for the typical residential customer in the first year of a five-year plan approved by the Ontario Energy Board ("OEB"). It is expected that rates will remain below 2019 levels through the end of 2024. The plan behind this outcome was directly informed by the opinions of

the over 10,000 customers directly engaged prior to and during the plan's development and finalization. The message received from our customers was clear: to keep rates low and to improve reliability for customers experiencing worse reliability than the average.

The Government intrinsically knows and understands these priorities. Toronto Hydro is well aware of the significant lengths to which the Province has gone to reduce electricity rates for customers, beginning with the cancellation of surplus generation contracts,¹ the introduction of the Ontario Electricity Rebate, and the range of tax-funded initiatives during the pandemic up to and including the relief announced in the recent 2020 Budget. Moreover, the Government's support of Ontario Power Generation's plan to safely extend the life of the Pickering Nuclear Generating Station until 2025 further commits the Government to a path that maintains grid side resources as the means to meet demand within the province, at least in the near to medium term.² The result is a strong signal from the Government that Ontario will continue to provide grid-side power that is affordable, available, and reliable.

Feedback

Any expansion of net metering runs counter to the government's energy policy objectives and places upward pressure on electricity rates

It is against this backdrop, that Toronto Hydro must express its concern with the proposal to expand the net metering framework in the form presented in the Ministry's regulatory posting, even if just for piloting purposes. As the Ontario Energy Association ("OEA") has cautioned, declining load demand, combined with steady or even increasing capacity will continue to put upward pressure on electricity rates for our customers. The OEA has recommended measures to increase load demand in the province to counter this effect.³

Net metering does the opposite. Net metering is a framework for compensating electricity generated by resources located "behind-the-meter" that do not have a fixed contract through an IESO program, such as FIT or microFIT. Net metered generation is generally compensated at the commodity rate that prevails on a customer's bill. For the types of applications considered in CNM, this is almost certainly to be prices set under the Regulated Pricing Plan ("RPP") – either Time of Use or Tiered rates. RPP rates are purposefully established to recover wholesale costs and a share of the Global Adjustment, which proportionately contribute \$20.87 per MWh and \$109.47 per MWh respectively to RPP rates.⁴ Framed

¹ <https://news.ontario.ca/en/release/49720/ontario-to-cancel-energy-contracts-to-bring-hydro-bills-down>

² <https://news.ontario.ca/en/release/57995/ontario-supports-plan-to-safely-extend-the-life-of-the-pickering-nuclear-generating-station>

³ <https://www.newswire.ca/news-releases/ontario-energy-association-recommends-load-growth-policies-to-alleviate-electricity-rate-pressure-on-current-customers-809710798.html>

⁴ See the RPP Price Report, pg3: <https://www.oeb.ca/sites/default/files/rpp-price-report-20201013.pdf>

another way, for every \$1 of value net metered generation contributes to the wholesale market, there is \$5.25 of Global Adjustment under-recovery.

With Global Adjustment costs largely fixed, this under-recovery of Global Adjustment from net metered customers represents a cross-subsidy paid for by customers without net metering via higher Global Adjustment rates and the cost of tax-funded rate subsidies in lockstep. In other words, the vast majority of the benefit a CNM pilot proponent would gain through lowering its rates would be paid for by higher Global Adjustment rates in the future.

A second challenge with net metering is that it fails to encourage generation to be located efficiently and where system benefits can be optimized. Again, because the net metered generation is compensated at prevailing commodity rates which are set provincially, there is no price signal that would reward the generation to be located in constrained areas. This result in a loss in economic efficiency in the result. The proposal's requirement to require LDCs to approve a CNM pilot is not sufficient to bridge this gap.

Finally, an expansion of the net metering framework makes it more difficult to implement more innovative DER compensation frameworks – frameworks that aren't an implicit cross-subsidy and that do reward generation that's located efficiently. Toronto Hydro observes that net metering is being rolled back and replaced in jurisdictions that are pursuing more innovative frameworks for remunerating Distributed Energy Resources, and that the transition away from net metering represents a barrier to be overcome in pursuit of that innovation.

As a result, Toronto Hydro recommends that the MENDM not expand the scope of net metering at this time and delay its consideration, at a minimum, until the conclusion of the OEB's Responding to DER's proceeding rates. The merits of CNM can then be reevaluated against the regulatory framework(s) that emerge(s) from that effort, and which would undoubtedly be better aligned to the government's policy objectives and the outcomes customers have told Toronto Hydro they want. We believe this path represents the best short and long-term interests of Toronto Hydro's customers as well as the policy objectives of government.

Alternative approaches to CNM are available that pursue the same objectives articulated in the regulatory posting

Toronto Hydro strongly endorses the pursuit of innovative approaches that deliver benefits simultaneously to individual customers and ratepayers generally (i.e. system benefits). There are alternatives to CNM that have already been approved by the OEB to achieve those objectives.

For example, Toronto Hydro's Local Demand Response ("DR") project at Cecil TS is successfully deferring tens of millions of dollars in station upgrades through a novel aggregation of battery storage and CDM. This non-wires alternative ("NWA") solution, funded through a blend of cost-effective capital and operational spending, is successfully delaying the need for much larger capital investment at that location and benefitting Toronto Hydro customers through lower costs in the near and medium term. Toronto Hydro plans to continue Local DR at Cecil TS and has plans to expand Local DR during the 2020 to 2024 period. In doing so, the utility expects to defer tens of millions of dollars more in capital costs that would otherwise be needed to avoid reliability risks and meet its obligations to its customers.

Finally, the OEB's Innovation Sandbox, made available following Toronto Hydro's implementation of Local DR, may also be fertile grounds for LDCs exploring alternatives in a timely fashion should the CNM proposal not proceed.

The CNM proposal requires additional consultation and refinement should it proceed

Should the MENDM nevertheless decide to proceed with CNM, either now or subsequent to the conclusion of the OEB's Responding to DER's proceeding, Toronto Hydro strongly urges further consultation prior to amending the net metering regulation. Many critical details are left undefined or vague in the regulatory posting and within the MENDM's subsequent presentations to industry. For example:

- The MENDM should bring forward to stakeholders a specific proposal for the definition of "community." Draft language is not provided for in the posting and will be definitive in establishing the scope of CNM.
- The MENDM should reconsider providing Unit Sub Meter Providers with exclusive access to the provision of CNM, to the exclusion of LDCs.⁵ This is contrary to the MENDM's suite metering framework whose objective is to foster competition in that space, in which Toronto Hydro is active as a regulated participant. As Toronto Hydro has remarked to MENDM staff before, many of the performance obligations of LDCs contained in the Distribution System Code are not applied to USMPs through the USM Code. To that end, it is not clear to Toronto Hydro why communities that wish to explore net metering would be excluded from doing so directly through the LDC and served by entities with lesser performance obligations.
- There is no consideration for the cost responsibility of grid-side investments needed to ensure reverse power flows do not affect the reliability of the distribution system serving other customers, produce power quality issues for nearby customers or create a safety risk to crews working on nearby infrastructure.

⁵ This was conveyed verbally by MENDM staff in a presentation to industry stakeholders, though it is not part of the formal regulatory posting.

These are not small issues – they are of paramount concern that require technical, operational and policy/regulatory input to ensure appropriate parameters are established.

Again, Toronto Hydro offers this feedback as being in the best short and long-term interests of all its customers. Toronto Hydro has reviewed the submission of the CLD and submits that the positions expressed there are complementary to and consistent with this response. Please do not hesitate to contact me at any time on any of the aforementioned, all of which is respectfully submitted.

Sincerely,

A handwritten signature in blue ink that reads "Andrew J. Sasso". The signature is fluid and cursive, with the first name being the most prominent.

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