



December 10, 2020

IESO Stakeholder Engagement
Innovation and Sector Evolution White Paper Series

Submitted via email

Re: AMPCO Comments on Innovation and Sector Evolution White Paper Series

AMPCO is the voice of industrial power users in Ontario. Our mission is industrial electricity rates that are competitive and fair.

Attached are AMPCO's comments on the IESO's stakeholdering of the Innovation and Sector Evolution White Paper Series. AMPCO appreciates the opportunity to provide such feedback.

Best Regards,

[Original signed by]

Colin Anderson
President

Innovation and Sector Evolution White Paper Series

Submissions of the Association of Major Power Consumers in Ontario (AMPCO)

INTRODUCTION

Ontario's electricity system is complex and always evolving. AMPCO provides Ontario industries with effective advocacy on critical electricity policies, timely market analysis and expertise on regulatory matters that affect their bottom line. We are the forum of choice for major power consumers who recognize that their business success depends on an affordable and reliable electricity system.

These submissions are in relation to the IESO's stakeholding of the Innovation and Sector Evolution White Paper Series. AMPCO's members are major power consumers, responsible for over 15 TWh of annual load in the province. The IESO's perspective on "innovation" could have a material impact on electricity pricing in Ontario, which is why AMPCO has an interest in this consultation.

AMPCO appreciates the opportunity to provide feedback and looks forward to continued dialogue.

CONTEXT OF AMPCO COMMENTS

On November 19, 2020 the IESO hosted a webinar on Innovation and the Sector Evolution White Paper Series. Specific questions were asked of Stakeholders dealing with which options would be most effective to encourage Distributed Energy Resource (DER) participation in the IESO Administered Markets (IAMS) and which wholesale products/services would DER owners/aggregators seek to provide in the IAMS. This submission does not respond to those questions.

Instead, AMPCO wishes to ask (and answer) certain questions of its own. AMPCO has asked these questions in IESO forums over the past two years (typically, the Stakeholder Advisory Committee), and wanted to duplicate them here, and provide the AMPCO perspective, as a summary of its general concerns with the IESO’s Innovation and Sector Evolution work.

AMPCO is more than happy to discuss these comments.

QUESTIONS

1. *Is the IESO the appropriate entity to be leading Innovation and Sector Evolution work?*

In the past, AMPCO has publicly questioned the role of the IESO in executing initiatives specifically pertaining to “innovation” or the evolution of the electricity system to some future state¹.

AMPCO believes that the IESO should focus its efforts on reliably operating the Ontario electricity grid, as generally set out in its objects under Section 6 of the *Electricity Act, 1998*. AMPCO acknowledges that those objects include elements that deal specifically with promoting cleaner energy sources and electricity conservation, facilitating load management, and procuring adequate capacity, energy and transmission resources, but they in no way imply that the IESO is to be the lead coordinator of market evolution for the province. In AMPCO’s submission “Engaging in activities to support...”² and “...leveraging its position at the heart of the sector to facilitate innovation by supporting, *leading* or participating in initiatives... [*emphasis added*]”³ are different. To be clear, AMPCO does not oppose activities that will support the evolution of the sector. It does, however, oppose the IESO leading such initiatives, potentially

¹ As captured in the minutes from the April 24, 2019 Stakeholder Advisory Committee Meeting (<https://ieso.ca/en/Sector-Participants/Engagement-Initiatives/Stakeholder-Advisory-Committee/Meetings-and-Materials>)

² General language used within the *Electricity Act* (<https://www.ontario.ca/laws/statute/98e15#BK8>)

³ IESO Innovation Webpage (<https://www.ieso.ca/en/Get-Involved/Innovation/Projects>)

determining winners and losers, and providing financial support for “innovation” activities that are not yet economic. See point 2 below for additional discussion of financing.

Additionally, given that the recently delivered 2020 Ontario Budget includes a specific direction to amend the *Ontario Energy Board Act, 1998* to modernize Ontario Energy Board (OEB) objectives by making innovation in the electricity sector a legislated objective of the OEB, innovation is likely a subject best managed by the OEB, with IESO support. AMPCO strongly recommends a united approach, such as this, be adopted.

In AMPCO’s submission, the activity of leading Ontario’s electricity sector evolution is not an appropriate role for the IESO.

2. Should the IESO be continuing to spend Stakeholder money on innovation-related initiatives through its “Grid Innovation Fund” or other such mechanisms?

No. Supporting the evolution of the sector is different than financing the evolution of the sector.

According to materials provided by the IESO⁴, the Grid Innovation Fund (GIF) advances innovative opportunities to improve electricity affordability and reliability for Ontario ratepayers by funding projects that either enable customers to better manage their energy consumption or that reduce the costs associated with maintaining reliable operation of the province’s grid. Further, the GIF has an annual budget of up to \$9.5 million funded through Global Adjustment.

The GIF is used by the IESO to selectively (financially) support certain innovation related projects. AMPCO questions whether there is documentation that supports the arrangements that have been struck. For example:

⁴ At its April 24, 2019 Stakeholder Advisory Committee Meeting (<https://ieso.ca/en/Sector-Participants/Engagement-Initiatives/Stakeholder-Advisory-Committee/Meetings-and-Materials>)

- What specific covenants or deliverables are required in order for an entity to receive funding?
- Are there situations where the GIF funding is paid back?
- Is there a financial return associated with the support given, or are these simply grants?

In short, AMPCO is not aware of any performance guarantees, reimbursements or returns on investment associated with GIF funding. AMPCO requests some additional information and clarity from the IESO in this area.

Historically, the GIF was part of the IESO's administration fees. It was moved to Global Adjustment per an April 23, 2010 Directive from which the IESO continues to derive authority to administer the GIF. While elements of the IESO's administration fee are subject to Ontario Energy Board review, pursuant to applications advanced by the IESO, AMPCO is uncertain as to whether the GIF is included in that review, as it is currently funded by the Global Adjustment. With Global Adjustment amounts spiralling out of control, any additional upward pressure should be avoided⁵. AMPCO believes that any additions to Global Adjustment should be carefully scrutinized.

The following excerpt appears in the April 24, 2019 Memorandum provided to the SAC:

“To help ensure value-for-money the Fund [GIF] will undergo an independent, third-party evaluation of results on a biennial basis beginning in 2019.”

AMPCO requests that the IESO provide stakeholders with all third party evaluations that have been performed on the GIF to date. AMPCO would also like to see some form of cost benefit analysis associated with the general operation of the GIF.

Notwithstanding the IESO's assertion that the GIF facilitates improved electricity affordability and reliability, in AMPCO's submission, the current lack of transparency around the terms and performance of the GIF suggests that the IESO should not be using

⁵ AMPCO acknowledges the reduction in GA that was included in the November 5, 2020 Provincial Budget, but maintains that even with that change in 2021, GA levels will still be excessive.

ratepayer funds to financially support innovative projects until such time as its claims have been substantiated.

3. In the context of innovation, doesn't "Value Creation for Customers" include the notion of "Affordability", and don't they basically mean the same thing?

A key objective of any exercise dealing with innovation has to be the over-arching need for affordability and electricity system cost reductions for customers. Ontario's industrial electricity prices are still among the highest in North America, with large industrial Class A rates increasing almost 25% over the last five years, and small and medium industrial Class B rates increasing by over 40% in the same period. Similar increases have also taken place in both the commercial and residential sectors, further underscoring the need for a focus on customers, and the total system costs that those customers bear.

Often in discussions on innovation, "Affordability" is forced to be considered synonymous with "Value Creation for Customers". The two are not synonymous. Value creation means many things to many people. To some it may mean incremental service offerings. To others it may mean à la carte options on a bill, while others still may consider it to mean choices regarding supply options, reliability levels or payment options. None of these speaks to costs.

While AMPCO has no doubt that all of these choices (and many others) represent some amount of value to some consumers, AMPCO Members are much more concerned with their costs (and with reducing those costs) than they are with these other choices. For this reason, AMPCO disagrees with the broadening of an objective specifically focussing on "affordability" or "cost reduction" to one of "value creation". Cost reduction is specific - it requires the number at the bottom of the bill to get smaller, not bigger. Value creation, on the other hand, may not impact costs at all or may allow for cost increases in the belief that the benefit associated with the increase outweighs the cost. AMPCO submits that changes resulting from such increases in value should not be

imposed upon those who have a strict cost focus, or more clearly, increases in cost associated with financing “innovation” should not be inflicted upon those who do not want them and cannot afford them. If the changes being considered are uneconomic, then perhaps they should be reconsidered when they can demonstrate that they are economic.

4. Are there any potential landmines that exist in the general innovation subject area that have been largely ignored?

Yes. A material increase in Distributed Energy Resources has the potential to result in a significant amount of stranded costs in the electricity system. This subject has been raised often but never seems to be the focus of the discussion on innovation. It needs to be.

Yesterday's system relied on a centralized model for planning and operation. It evolved that way due to the desire to achieve economies of scale and the need for improved reliability. It seemed reasonable to only have one electricity system, since it was so capital intensive to build it.

Almost all of the innovation discussions taking place now regarding tomorrow's system revolve around a somewhat different theme - decentralization or, “grid defection” - with the idea being that we can maintain the benefits of a centralized system, while enjoying the new found products and choices that will exist in an innovated world.

The problem occurs in the transition between these two worlds. We already have the old world system - and we continue to pay for that every time we pay our electricity bills - bills that are already too high. Utility infrastructure in the province is worth tens of billions of dollars - generally included within utility rate base. That rate base is paid for by all consumers on an ongoing basis. Some of the constructs currently being discussed provide incentives to reduce reliance on the existing grid. Reduced reliance will lead to the perception of reduced responsibility for the costs of that centralized

system. Those costs still need to be paid - but fewer and fewer people will feel obligated to do so.

The proliferation of DERs has the potential to render existing infrastructure redundant. This redundancy of certain elements of the electricity system is how stranded costs could be created. We need to understand this undesirable effect and mitigate it. Otherwise, we set ourselves up for a second wave of debt retirement charges.

This concern must be addressed now - before DERs expand further, and the issue is already real and significant. The full impact on the system including upstream and downstream impacts and risks and total system cost needs to be assessed within the context of a comprehensive cost benefit analysis. An increase in total system cost as a result of innovation is not a viable outcome.