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Comments on Ontario Regulation 429/04 Amendments Related to the Treatment of Corporate Power Purchase Agreements

ERO 019-7853

Overview

Established in 1969, Pollution Probe is one of Canada's longest serving and most respected environmental organizations. Pollution Probe has a proven track record of working in successful partnerships with industry and government to develop practical solutions for shared environmental challenges. Its approach is to define environmental problems through research, to promote understanding through education, and to press for practical solutions through advocacy.

Thank you for the opportunity to provide comments on the proposed amendments to Ontario Regulation 429/04 Related to the Treatment of Corporate Power Purchase Agreements. Pollution Probe congratulates the Province on looking at every possible avenue to increase renewable electricity development and generation in Ontario. At COP28, the resolution called for a tripling of renewable electricity capacity, and it is clear that in most cases renewable electricity is the lowest source of bulk electricity. The renewables industry has developed since the Province revoked the Green Energy and Economy Act, and we congratulate the Province on re-evaluating the role of renewables based on new information. The recognition that renewables can contribute to the system was also recently seen in the IESO's recent LT2 announcement.

Despite this general support, Pollution Probe has concerns about the structure of the proposed PPA system, namely that it will be a component of an existing program for which it was not designed for and would lead to greater problems than it is solving.

Comments

The primary concern is the linkage with the ICI program. The ICI has clear objectives: allow industrial consumers to reduce their electricity costs by supporting the system in reducing peak demand. While the ICI program has clearly led to noticeable coincident peak demand reduction, the wider value of the ICI program to the electricity system is unclear, and it is unclear how expanding technologies will improve the system.

Of course, industrial consumers reducing their costs greatly affects other consumers. According to an Ontario Energy Board's Market Surveillance Panel report, between 2011 and 2017 the ICI shifted $1.2 billion in electricity costs from industrial consumers to residential consumers, raising rates by 10%.[1] While the transfer of portions of the Global Adjustment (GA) to the tax base has likely reduce that cost shifting, it has not removed it entirely.

[1] https://www.oeb.ca/sites/default/files/msp-ICI-report-20181218.pdf

This cost shifting will remain and be exasperated if the ICI is expanded to include bilateral contracting. This proposed amendment may end up with electricity rates for Class B customers, including residential customers. The ICI is already leading to costs shifting to Class B. For example, Class B customers pay for 83.5% of the Global Adjustment (GA),[2] but Class B customers roughly account for around 75% of total consumption.[3] That means that Class B are already paying a higher share of GA than based on their percentage of consumption. If Class A customers further reduce their GA payments through these bilateral contracts, it will simply transfer the costs for industrial customers to decarbonize to Class B customers – without Class B customers being able to benefit from the decarbonization costs. In effect, Class B customers, including residential customers, will be subsidizing industrial decarbonization, and will also have to pay in the future to decarbonize their own consumption.

If anything, these amendments reinforce the Market Surveillance Panel's main concern:

> In the Panel's view, the ICI as presently structured is a complicated and non-transparent means of recovering costs, with limited efficiency benefits…. Arguably, the ICI does not allocate costs fairly in the sense of assigning costs to those who cause them and/or benefit from them being incurred.[4]

The inclusion of PPAs for renewables would not alter these concerns. There is already limited data on the ICI, with no visibility into what investments are being made, and the technology used. While assumptions on the peak reductions can be made (and backed up when the ICI was put on hold during the COVID pandemic), it is unknown what investments have been made and where. This means that it is unknown if greater system benefits could be had from ICI participants. For example, if a customer invests in storage to reduce their GA costs, that storage could also be used as non-wires solution to offset grid investments, or even as additional capacity. However, as there is no visibility into the ICI program, such benefits – both to the consumer and the system – cannot be realized. As such, the ICI while reducing peak may actually be increasing system costs as GA revenue is reduced on one side, while system investments are being made in case such peak reductions do not occur as the system operator or LDC does not have visibility.

It is also unclear where the Clean Energy Credits earned by the new renewable power installations will go. If there is a cost shift with the program, the revenue from the CEC is one avenue to reduce the impact.

Conclusion

Along with the recently announced procurement from the IESO and this proposed amendment, Pollution Probe commends the Province for re-evaluating the role of renewable energy based on new evidence and allowing it to compete in Ontario's electricity sector.

Pollution Probe also commends the Province for looking into all potential avenues to incentivize renewable electricity generation. However, there is nothing in these amendments that would improve

[2] https://www.oeb.ca/sites/default/files/rpp-price-report-20231019.pdf
[3] Figures derived from https://www.ieso.ca/en/Sector-Participants/Settlements/Global-Adjustment-Components-and-Costs
[4] https://www.oeb.ca/sites/default/files/msp-ICI-report-20181218.pdf

the administration of the ICI, and given that the amendments would likely lead to an expansion of the ICI, the amendments will take a bad system that was somewhat marginal to overall costs, and make it a larger component of the electricity market. Trying to shoehorn a renewable generation incentive onto an existing system, one that was not designed to support generation but rather was designed to support peak reduction, will create a Frankenstein policy that will likely lead to unintended consequences. It is thus unwise to try to support renewable electricity through reducing industrial consumers' electricity costs.

This is a concern as Ontario has already seen how well-intentioned policies can lead to unintended consequences, that lead to political backlash and end up leading to policy failure and making future policies untenable. It has taken the province almost a decade to recover from the Green Energy Act, a time that has led to stasis in the energy system and time lost. We cannot lead to even more time lost due to political backlash.

Ontario has a track record in energy policy of trying to attach new objectives to existing policies without considering their implications. Ironically, the GA is one example if this, and the need to deal with the GA as a result led to the ICI. Rather than forcing a new policy on an old one, the Province should develop a more comprehensive virtual net metering policy that is open to all Ontarians, and does not just allow for cost shifting. This could include developing value of DER tariffs (vDER tariffs), which, while New York is struggling with, could be created to ensure that small-scale renewable development actually provides benefits to the system, such as being non-wires solution. In 2020, Pollution Probe conducted a study, which at the time was focused on replacing the energy services that Pickering Nuclear Station currently provides (https://www.pollutionprobe.org/replacing-pickering/). While the future of Pickering is now uncertain, many of the findings are still of value, including creating a more formalized system for non-wires solutions, which is being pursued by the OEB, a DER cost-benefit analysis, and a value of DER tariffs, among others. If the Province wishes to create a system for bilateral contracts, then it should develop a mechanism through the existing market, possibly with an altered GA, rather than try to force such a system through an out-of-market policy that will be opaque to all system participants. The need for transparency can be seen in the IESO's transparent contracting under LT1 and hopefully LT2.

Pollution Probe wants to reiterate its support of the Province, and offer its help, as it investigates how best to include renewable energy sources in the electricity system. Our goal is to do that in a transparent and public system, where all Ontarians can participate and benefit in the energy transition.