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Association of Power Producers of Ontario (APPRO) Submission

Proposal to amend Ontario Regulation 53/05 and/or create regulations under the Ontario Energy Board Act, 1998 to rate regulate certain pumped storage facilities.

Environmental Registry of Ontario, #019-7337

<https://ero.ontario.ca/notice/019-7337>

Introduction

The Association of Power Producers of Ontario (APPRO) is pleased to offer its recommendations on the Proposal to amend Ontario Regulation 53/05 and/or create regulations under the Ontario Energy Board Act, 1998 to rate regulate certain pumped storage facilities (ERO #019-7337).

APPRO is proud to have established itself as a leader in the industry, representing various power producers across Ontario. Founded in 1986, our member companies build, own, and operate power projects across Canada, and produce most of Ontario's electricity from clean and renewable resources, including nuclear, hydroelectric, natural gas, biomass, wind, and solar energy.

APPRO's goal is the achievement of an economically and environmentally sustainable electricity sector in Ontario that supports the business interests of electricity suppliers, ratepayers, and the provincial economy. APPRO plays a leadership role in the formation of energy policy and rules to facilitate investment in sustainable supply and efficient pricing of electricity in Ontario.

Background

Apart from electricity generation projects owned and operated by Ontario Power Generation (OPG), Ontario has historically procured electricity projects through structured competitive procurements (RFPs), and this process has resulted in competitively priced new resources being expeditiously added to the system over the past two decades. Those procurements were ideal for natural gas fired combined cycle and simple cycle facilities, wind, solar and battery energy storage facilities where there is a large pool of developers, constructors and equipment suppliers to drive competition at every level.

Competitive procurements, however, are not as well suited to large hydro, nuclear and long duration storage like pumped hydro, which provide essential value to the system at scale, but have long development cycles, fewer developers, limited sites, bespoke solutions, and are very long-lived assets.

APPPrO supports appropriate long-range planning to ensure Ontario's energy system remains reliable, affordable, and meets evolving needs. Having rate regulation available as a tool to underpin unique long-life large-scale grid assets like pumped storage would be a constructive part of a balanced approach to meeting Ontario's long-term needs.

1. Pumped Storage Projects are Good Candidates for Rate Regulation:

In APPPrO's view, the projects under consideration have specific characteristics making them well suited for rate regulation, including:

- **Site Specific:** There are very few sites for economic pumped hydro storage in Ontario. The limited number of appropriate sites makes competitive procurement of these assets impractical. As such, rate regulation can serve as an effective surrogate to competition in protecting the public interest.
- **Long Life Infrastructure:** Pumped storage projects are expected be operational for 90+ years. A regulatory process can better match incentives to output and performance of the facility in a flexible manner to serve the interests of ratepayers over the lives of such assets. In these circumstances, rate regulation can better facilitate matching long-life assets to an appropriate period of capital recovery. The alternative approach of entering into long-term contracts prior to commercial operation is a significantly less flexible option, creating long-term risks for suppliers and customers that are difficult, if not impossible, to hedge.
- **A Unique Asset Class:** Pumped storage can offer multiple services to Ontario's electricity grid. The costs of building, operating and managing these assets can be assessed by the Ontario Energy Board (OEB) in an open and transparent rate setting process to ensure that electricity ratepayers' interests are safeguarded. This is how Ontario determines how the costs of other critical energy infrastructure, including transmission and generation from a number of hydroelectric and nuclear resources, including OPG's planned small modular reactors are recovered from consumers at reasonable cost.

2. Consumer Benefits of Rate Regulation for Pumped Storage in Ontario:

Rate regulation for pumped storage projects would provide Ontario energy consumers, residents and businesses with **cost review, public transparency, and access to lower cost capital.**

- **Cost Review:**
 - Under rate regulation, the costs to be recovered from ratepayers are reviewed by the OEB in a proven, open and transparent public hearing process that ensures these are reasonable and appropriate in the circumstances. Over the life of a project, cost recovery payments are typically adjusted to reflect prevailing market rates for financing, which protects electricity consumers while providing for return of and on capital to Project owners. Under rate regulation, asset owners retain the responsibility of ensuring that assets are appropriately managed and continue to provide benefits to ratepayers.

- **Transparency & Participation in the OEB Process:**
 - The OEB conducts open and public rate hearings. Members of the public, as well as OEB staff and intervenors representing various interests can participate in these hearings to make their views known.

- **Lower Cost Capital:**
 - The rate regulation regime and mechanisms are well understood by lenders and are perceived to be more stable, which can help lower the cost of capital to the benefit of electricity consumers.

- **Flexibility**
 - There are a variety of regulatory approaches which can be employed. The OEB has significant experience in working with these different approaches, which can be tailored to the specific characteristics of the proposed projects.

Summary

APPrO has long advocated for and supported appropriate long-range planning to ensure Ontario's energy system remains reliable, affordable, and meets evolving needs as the province transitions to a net-zero economy over the coming decades. Using rate regulation as a tool to compensate unique, long-life, large-scale grid assets like pumped storage can be a constructive part of a balanced approach to meeting Ontario's long-term needs while protecting the interest of consumers. As such, APPrO supports using rate regulation for the pumped storage projects currently under consideration (i.e., Meaford and Marmora)