

September 16, 2021

Ms. Christine E. Long
Registrar
Ontario Energy Board
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Toronto, ON M4P 1E4
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Dear Ms. Long,

EB-2021-0106 – Updating the CDM Guidelines for Electricity Distributors, Coalition of Large Distributors (“CLD”) Written Comments

On August 5th, 2021 the Ontario Energy Board (OEB) released an OEB staff discussion paper on Updating the Conservation and Demand Management (CDM) Guidelines for Electricity Distributors (the “Discussion Paper”). The Discussion Paper set out a proposed approach regarding the role of CDM for rate-regulated electricity distributors, addressing the 2021-2024 CDM Framework, the wind-down of CDM activities associated with the 2015-2019 Conservation First Framework (CFF) and the 2019-2020 Interim Framework, and rate-funded CDM activities outside the provincial frameworks. In addition, the Discussion Paper also indicated that a set of Updated CDM Guidelines and updates to other applicable OEB documents (e.g. Filing Requirements for Electricity Distribution Rate Applications) would follow.

The CLD is pleased to offer comments on the Discussion Paper and the proposed updates to the CDM guidelines. The CLD consists of Alectra Utilities Corporation, Elexicon Energy Inc., Hydro One Networks Inc., Hydro Ottawa Limited, and Toronto Hydro-Electric System Limited. Together, the CLD’s members represent more than 3.6 million, or approximately 70% of electricity consumers located across the province.

The CLD commends OEB staff for their efforts in updating the guidance to reflect the new centralized delivery of CDM frameworks in Ontario and for offering additional guidance to

utilities on integrating CDM into planning, in alignment with the goals of the OEB's Framework for Energy Innovation consultation. The CLD is largely supportive of the positions put forth by OEB staff in the Discussion Paper, and offers its comments in areas where potential improvements could be made to what the CLD already considers to be a practical, thoughtful, and well-formed proposal.

In this submission, the CLD offers its feedback on several areas of the Discussion Paper. However the points below represent the CLD's primary recommendations:

- Need for the IESO to provide distributors with historical and forecasted CDM savings to ensure accurate distribution level load forecasting; and that such information be provided in a transparent manner that distributors can verify;
- Need for distributors to be able to utilize LRAM for persisting savings from prior CDM frameworks until their next rebasing;
- Need for clarity on whether distributors that use the Custom IR rate setting methodology would also be able to submit stand-alone applications for distribution-rate funded CDM between re-basing applications; and
- There is an expectation from customers that distributors should still be able to assist them and act as an expert resource on energy conservation matters. Lessening distributors' involvement in CDM activities (e.g., the LIP) may cause customer confusion and could negatively impact the customer experience.

General Comments

Distributors know that energy conservation is important to their customers. Customers consider their electricity distributor as a trusted partner in that area and appreciate the value distributors can bring to the process as evidenced by past involvement and success of distributor delivered CDM. Distributors need to strategically consider CDM in order to evaluate the opportunities and risks associated with involvement in CDM activities, and thus it is important that clarity on the proposed CDM Guidelines be provided in order to

better understand what is being offered in the 2021-2024 CDM framework, particularly with regard to cost recovery, and the use of the Lost Revenue Adjustment Mechanism (“LRAM”) and its associated variance account (“LRAMVA”).

As the OEB moves forward with this consultation, it should remain mindful of the need for coordination between related OEB policy initiatives (e.g. Framework for Energy Innovation) and IESO initiatives (e.g. 2021-24 CDM Framework, DER Roadmap, Enabling Resources), so that progress across such initiatives is aligned. It’s important that all stakeholders fully understand the OEB’s expectations, and the broader implications of each initiative on the utility’s business and the evolution of the sector. This is especially important as the energy sector prepares for potentially significant load growth resulting from the federal, municipal and customer net zero emissions targets.

Distribution Rate-Funded CDM Activities and the Role of CDM in System Planning

In the Discussion Paper, OEB staff propose that the Updated CDM Guidelines support an approach to infrastructure planning, at the regional and local levels, that requires consideration of the role of CDM in meeting system needs. The CLD agrees with that statement, and submits that the role of CDM also provides the following:

- supports Municipal, Provincial and Federal Climate goals;
- offers a cost-effective option for dealing with supply related issues, including those driven by conventional load growth and climate action; and
- Provides a tool to help mitigate the cost impacts of increasing carbon prices and electrification.

While the CLD understands that some of the above items are outside the OEB’s existing mandate and legislative objectives, they are nevertheless important elements of CDM that should be taken into consideration as the OEB sets the CDM Guidelines.

While OEB staff acknowledge the importance of CDM in system planning and its ability to potentially defer infrastructure spending, the CLD submits that without IESO data on utility-specific actual historical and forecasted CDM savings, distributors will not have the demand reduction information required to appropriately plan infrastructure investments in their territory. The expectation that distributors incorporate CDM impacts or results into system planning activities was reasonable during the previous CDM frameworks when distributors were delivering CDM and were accountable for the results. However, in the 2021-2024 CDM Framework, distributors are unable to incorporate savings into planning activities without a line of sight into what savings are expected to be achieved in a distributor's service territory and how the programs are performing. If a program is ineffective and does not achieve the forecasted savings, distributors run the risk of unexpected expansions to their system plans. The CLD recommends that an annual verified results report for each distributor be introduced by the IESO for the 2021-2024 CDM framework, similar to the reports provided under the CFF.

Types of CDM Activities

The CLD agrees with OEB staff's position that the Updated CDM Guidelines should not exhaustively list the types of CDM activities that could be considered for distribution rate funding and that the four examples from the previous Guidelines are valuable and should be preserved. CLD members further agree that providing distributors' with this flexibility will help foster new and innovative categories of solutions, and supports the OEB's goal of modernization and being a top quartile regulator.

While it's clear that CDM can play an important role in distribution system planning, particularly in regards to deferring or eliminating infrastructure investments, the CLD is concerned for the potential for regulatory inefficiency that could arise if stakeholders seek to test CDM as alternatives to all types of utility investments in a rebasing proceeding. As such, the CLD agrees with OEB staff's proposal that the distributor be permitted to define the types of system needs where CDM activities have the greatest potential to meet the system need. This recommendation aligns with the Binary Screening Criteria in

Enbridge's Integrated Resource Planning Framework¹ and would reduce the risk of these guidelines negatively impacting regulatory efficiency.

Timing of Applications

The CLD supports the position that the Updated CDM Guidelines should encourage distributors to make funding requests for CDM activities as part of rebasing rate applications, where possible. The CLD appreciates that OEB staff also recognize that CDM opportunities may arise between cost of service rebasing, and the CLD supports the view that distributors should have the ability to submit CDM funding requests in between cost of service rate applications.

However, the CDM Guidelines lack clarity on whether distributors that are under a Custom IR rate term would also be able to submit stand-alone applications for distribution-rate funded CDM between re-basing applications. The 2016 Handbook for Utility Rate Applications states that for utilities who have had their rates set as part of a Custom IR application "the OEB expects there to be no further rate applications for annual updates within the five-year term, unless there are exceptional circumstances, with the exception of the clearance of established deferral and variance accounts."² The CLD submits that the OEB should clarify through these guidelines that stand-alone CDM applications for distributors under Custom IR in between rebasing applications are appropriate, even if there are no exceptional circumstances.

In the early years of implementing the Updated CDM Guidelines, it may be beneficial for the OEB to encourage more stand-alone applications as distributors develop the experience with integrating and leveraging CDM activities. This approach would also support innovation in the sector by allowing for more frequent opportunities for distributors

¹ OEB Decision and Order (EB-2020-0091) - Enbridge Gas Integrated Resource Planning Proposal, July 22, 2021. Page 5.

² Handbook for Utility Rate Applications, October 13, 2016. Page 26.

to seek OEB guidance and approvals for novel approaches during their 5+ year rate setting cycles.

Cost Recovery

The CLD is supportive of the proposal that distributors be able to propose an approach for cost recovery (e.g., rate rider, deferral account, Incremental Capital Module, etc.) when filing their applications with the OEB and also agrees that the approach to utility remuneration should generally be the same for CDM activities as it is for other distribution system expenditures.

In the proposed amendments, OEB staff express the view that the Updated CDM Guidelines could potentially provide some flexibility by noting that should a distributor wish to propose a results-based approach to the recovery of revenues associated with CDM expenditures, it should be able to file an appropriately detailed proposal regarding performance measures, targets, and its approach to revenue adjustments. The CLD strongly supports this position and encourages the OEB to include the potential for results-based revenue recovery as a potential option for distributors with the Updated CDM Guidelines. While such a results-based approach may only be applicable to a subset of potential CDM programs, the ability to do so may ultimately determine whether such programs are viable or not. Incentive structures can drive innovation in this space and could deliver numerous benefits to stakeholders in a cost-effective manner.

Regional Planning

The Discussion Paper mentions that one item currently being assessed by the Regional Planning Process Advisory Group (RPPAG) is a better understanding of cost responsibility (between distributors, transmitters, and possibly the IESO) related to the optimal solutions (including non-wire solutions such as CDM) that address needs identified in the planning process, and that these findings may be incorporated in the Updated CDM Guidelines at a later undetermined date. The CLD submits that in the absence of such guidance, distributors (in agreement with transmitters and the IESO, as

applicable) should be provided the opportunity to propose cost sharing arrangements in their funding request, if such a project offers both local and regional benefits.

Incorporating CDM activities within distribution system plans that are intended to address regional needs may be a challenge for distributors as regional planning activities are often focused on the Bulk Electric System, and much less on distribution system planning issues. Connecting CDM activities to regional planning may align with upstream challenges, but these activities may differ from issues that arise due to specific local distribution issues. Additional complications could also arise in situations where the timing of the Regional Planning process doesn't align with the timing of a distributors DSP. As a result, CDM plans should at a minimum clarify the intended objective, and specifically whether the intent is to address a regional need, a distribution need, or both, for distributor consideration.

Roles of Distributors in the Local Initiatives Program (“LIP”)

Both the Discussion Paper and the May 28, 2021 OEB letter³ regarding the establishment of a deferral account associated with LIP, note that distributors have the ability to potentially leverage LIP procurements to attain resources for distribution system needs. While the CLD is appreciative of this opportunity, the CLD submits that it is unfortunate that this treatment is not symmetrical (i.e. IESO is not permitted the ability to potentially leverage local distribution system investments). While the CLD understands that the Minister of Energy's September 30, 2020 Directive to the IESO for the 2021-2024 CDM Framework doesn't allow for this, nevertheless, CLD members recommend that the CDM guidelines should be symmetrical.

³ <https://www.rds.oeb.ca/CMWebDrawer/Record/716329/File/document>

Distributor Staffing Costs for CDM and Supporting Activities

In the Discussion Paper, OEB staff propose that distributor staffing costs should not be eligible for rate funding unless tied to a LIP partnership, but the Discussion Paper is silent on the policy rationale for taking such a definitive position. The CLD is of the opinion that it is premature to forbid utilities from retaining staff. As the customer's trusted advisor, distributors should continue to offer customer-centric services. At a minimum, distributor staff may be required to liaise with the IESO, collect data and information, coordinate with system planning etc.

OEB staff also note that as part of the distribution system planning function, distributors will likely need to carry out some planning work to assess potential opportunities for distribution rate-funded CDM activities to meet system needs, in advance of proposing specific CDM activities. OEB staff then propose that the Updated CDM Guidelines could indicate that planning costs of this nature would be reviewed by the OEB as part of its overall review of OM&A costs. The CLD recommends that this guidance on such costs be stronger to indicate that distributors can and should recover prudently incurred costs for such staffing activities in their rates. Strengthening this proposal will help avoid a causality dilemma where distributors are not able to properly consider CDM options until they have CDM staff funding, but can't fund the CDM staff until they have approved CDM activities.

Impact of CDM on Distributor Revenues, Including Lost Revenue Adjustment Mechanism

Treatment of CDM Impacts in Load Forecast

OEB staff acknowledge the importance of making the load forecast as accurate as possible, and that in order to achieve this distributors should include the historical and forecasted impacts of CDM activities. The CLD strongly agrees with the OEB's

assessment and submits that in order to accomplish this, it is imperative that the IESO provide distributors with both the actual and expected energy and demand savings for their individual service territories. OEB staff hold the view that LRAM isn't required for the 2021-2024 CDM Framework as distributors do not have direct involvement in these programs and therefore there is no disincentive that needs to be removed. However, the CLD would argue that without the benefit of an LRAMVA to act as a true-up to the effects of CDM in the load forecast, it becomes that much more crucial that distributors ensure their load forecasts are as accurate as possible at the time of filing. In order to accomplish this, it is imperative that the IESO be required to provide appropriate information to distributors so that they can accurately incorporate the effects of CDM into their load forecasts. The information provided by the IESO should be sufficiently transparent to allow for distributors to appropriately understand and verify such results. Without appropriate reporting from the IESO, each distribution rate application will need to propose an appropriate methodology to capture the integration of CDM into its load forecast which will lengthen the rate application process, bring inefficiencies and additional costs from intervenors and potentially even 3rd party evaluation, measurement and verification experts to ensure appropriate prudence review.

While accurate and reliable load forecasts are of the utmost importance to distributors and their customers, there are other auxiliary benefits of IESO CDM reporting as well. For example, IESO CDM reports are frequently used by distributors to support Connection and Cost Recovery Agreement (CCRA) true-ups with Hydro One. Not having such data readily available to distributors and Hydro One, will again lead to many of the aforementioned inefficiencies.

Having distributors and the IESO utilize different data to support CDM is inefficient and risks confusion in the industry. Previously each distributor was required to keep customer level information to support CDM projects. Despite the delivery of these programs being moved from distributors to the IESO, the CLD is confident that this level of information is still being actively tracked by the IESO. Given this, the CLD maintains that the IESO

should be able to disaggregate their data with minimal incremental effort. For example, the use of postal codes could be utilized to summarize appropriate information to distributors as had been done in the past for certain province-wide CDM programs such as the Save on Energy Instant Discount Program. It would appear that the IESO in normal course should have the appropriate level of information and historical reporting capability to support distributor and industry needs and that a standardized report could be efficiently created. Barring that, at a minimum distributors should be able to use their own historical performances against current IESO targets and assume similar performance on the part of the IESO.

The CLD is also aware that transmitters and host distributors may face challenges in incorporating CDM into load forecasts if CDM activities are used more frequently in Regional Planning or if a large number of distributors begin undertaking distribution rate-funded CDM activities to defer investments. Given this, the CLD recommends that the OEB consider whether there are opportunities in the regulatory framework to encourage information sharing on planned CDM activities among regulated entities. This type of information sharing would ensure that transmitters and host distributors have sufficient information for their load forecasting and could promote learning and information sharing across the sector which could help to facilitate innovation.

Lost Revenue Adjustment Mechanism (LRAM)

While the CLD is amenable to the requirement that CFF-related LRAMVA balances be brought forward for disposition by the 2023 rate applications, the CLD submits that it's imperative the persisting savings from those programs be eligible for LRAM recovery until a distributor's next cost of service rebasing. Persisting savings from the CFF and Interim Frameworks still represent material amounts for distributors, and given that several distributors in the province have recently undergone mergers and may not rebase for up to 10 years, it is important that the LRAM be preserved to ensure those distributors are held harmless until they are able to conduct a new load forecast at the time of their next rebasing. While program delivery by distributors may have ceased, the impacts of those

programs will persist into the future. As distributors delivered these programs with the understanding that LRAM would be available to them, the CLD submits that the persisting effects of those programs should continue to be eligible for LRAM recovery.

While LRAM has historically been used to negate the effects of lost revenues associated with the reduction of energy and demand associated with the delivery of CDM programs, the CLD notes that the LRAMVA also acts as a symmetrical true-up mechanism for the forecasted effects of conservation in the load forecast and benefits both the distributor and customers. Such a true-up has the ability to appropriately correct for unforeseen and material changes to the CDM adjustment in the load forecast. Historical savings associated with CDM programs will continue into the future and any new CDM programs will still impact distributors. As a result, LRAM should continue into the future regardless of who delivers the program.

The CLD agrees with OEB staff that distributors should have the option of requesting an LRAMVA for programs through LIP and for CDM activities funded through distribution rates so there is no disincentive to these planning options; however simply maintaining the account in the meantime may be a more efficient path forward. The CLD expects that reliance on the LRAMVA will wane over time as the focus shifts to building more accurate CDM impacts into distributor load forecasts (assuming sufficient CDM data is made available to each distributor by the IESO).

OEB staff correctly noted that the implementation of a fixed distribution charge for residential customers has eliminated the issue of distribution revenue impacts from CDM activities for residential customers; but, distribution revenue impacts from CDM activities for commercial and industrial customers remain. The CLD adds that at the same time IESO programming has shifted from a focus on residential customers to a focus on commercial and industrial customers. As a result, the lost revenues associated with CDM haven't necessarily decreased as a result, which further highlights the importance of

having the IESO provide distributors with appropriate information for load forecast and possibly LRAM.

CDM/DSM Co-ordination

The CLD looks forward to working alongside Enbridge Gas Inc. and coordinating efforts on CDM and DSM. To better ensure an effective coordination process, the CLD suggests that the onus be on Enbridge to initiate consultations with affected distributors and not the reverse. This is especially true if the OEB ultimately agrees with OEB staff's view that electricity distributors should not have distribution rate funded CDM staff.

Conclusion

The CLD appreciates being provided the opportunity to share its feedback on OEB staff's Discussion Paper and the proposed updates to the CDM Guidelines for Electricity Distributors and looks forward to future opportunities for further engagement.

If you have any questions regarding our comments, please contact the undersigned.

Sincerely,



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