

**Updating the Conservation and Demand Management
Guidelines for Electricity Distributors**

**Power Workers' Union Comments on OEB Staff
Discussion Paper**

Introduction

1. On September 30, 2020, the Minister of Energy, Northern Development and Mines issued a directive to the Independent Electricity System Operator ("IESO") that provides direction on the electricity conservation and demand management ("CDM") framework for the 2021-2024 period.
2. On January 4, 2021, the IESO released its 2021-2024 Conservation and Demand Management Framework Program Plan, which provides an overview of the CDM programs to be delivered by the IESO in response to the Minister's directive.
3. On August 5, 2021 the OEB released an OEB staff discussion paper, *Updating the Conservation and Demand Management Guidelines for Electricity Distributors*, setting out a proposed approach regarding the role of CDM for rate-regulated electricity distributors, addressing the 2021-2024 CDM Framework, the wind-down of any CDM activities associated with the 2015-2020 Conservation First Framework ("CFF") and the Interim Framework, and rate-funded CDM activities outside the provincial frameworks. These proposals are primarily applicable to rate-regulated electricity distributors, but may also be of interest to the IESO, natural gas distributors, customer groups, and other parties.
4. The OEB intends to develop updated CDM guidelines, to replace the existing Conservation and Demand Management Requirement Guidelines for Electricity which were developed for the CFF. Consequential updates to applicable OEB documents (e.g. the Filing Requirements for Electricity Distribution Rate Applications) to reflect the updated CDM guidelines will also be implemented in due course. The OEB invited written comments from interested parties on the OEB staff discussion paper and proposed updates to the CDM guidelines.

Power Workers' Union's Position

5. The Power Workers' Union ("PWU") appreciates the opportunity provided by the Board for stakeholders to share their views on issues related to the new CDM framework. The PWU's concerns articulated in this submission relate to distribution system planning and the direct and indirect financial impact to local distribution companies ("LDCs") caused by the transition from the CFF to the 2021-2024 CDM Framework. The PWU's concern is that OEB Staff's proposed changes to the CDM guidelines will cause undue regulatory burden and financial harm to distributors.

Distribution System Planning

6. OEB Staff propose that the Updated CDM Guidelines requires consideration of CDM activities in the distribution system planning process.¹ OEB Staff notes that it is already incorporated for regional electricity planning and Enbridge Gas's natural gas system planning.

7. Introducing a requirement to consider CDM activities in distribution system planning would add undue regulatory burden to LDCs. CDM projects may provide benefit in certain situations, but they are wholly inadequate to address the majority of system requirements. A requirement to consider CDM activities in system planning would create an expectation that CDM activities are considered as an alternative to any project.

8. OEB Staff also suggest that LDC should be able to submit CDM applications between rebasing applications. OEB Staff do not suggest any threshold for considering a CDM project in between rebasing applications. It is not clear to the PWU why CDM applications should be considered between rebasing years but capital investments that may address the same needs would be considered only if it meets the high ICM/ACM threshold.

9. The ability for an LDC to apply for new CDM funding in between rebasing years would favour CDM projects over traditional capital investments in a way that is unrelated to consideration of the cost-effective option. The PWU anticipates that many CDM

¹ EB-2021-0106 OEB Staff Discussion Paper, *Updating the Conservation and Demand Management Guidelines for Electricity Distributors* dated August 5, 2021, page 9

programs administered by the IESO will be undertaken without consideration that the least-cost option may be a traditional capital alternative. The OEB should make efforts to avoid similar outcomes from the LDCs it regulates.

10. The PWU notes that the proposed requirement to include CDM activities in system planning conflicts with OEB Staff's suggestion that the Board should not allow recovery of costs related to CDM staff.² As the IESO assumed control of CDM programs, LDCs have been forced to lay off the staff members that are the most knowledgeable on CDM and have the most experience with CDM activities in the province. The OEB cannot reasonably expect LDCs to be in a position to consider CDM programs in distribution planning without its CDM staff.

11. The PWU submits that consideration of CDM activities should not be a requirement in the distribution system planning process. Further, the PWU submits that modifications to the CDM Guidelines is an inappropriate venue to implement new DSP requirements. This matter should be addressed as part of the Framework for Energy Innovation: Distributed Resources and Utility Incentives consultation.

Lost Revenue Adjustment Mechanism ("LRAM")

12. OEB Staff propose significant changes to the LRAM and Lost Revenue Adjustment Mechanism Variance Account ("LRAMVA"). OEB Staff propose that specific projects may still be eligible for LRAM recovery, but the majority³ of CDM savings would become ineligible for LRAM recovery. This proposed change is described on page 22 of OEB Staff's discussion paper:

CDM activities funded by the IESO through the 2021-2024 CDM Framework (excluding LIP): As indicated in section 5.2.2 of this discussion paper, OEB staff proposes that distributors may include the impact of these CDM activities in their load forecast if sufficiently supported by evidence. This should be treated like other forecasting variables, which are not generally subject to an LRAMVA mechanism. The IESO will have responsibility for these activities with no direct role for

² EB-2021-0106 OEB Staff Discussion Paper, *Updating the Conservation and Demand Management Guidelines for Electricity Distributors* dated August 5, 2021, page 16

³ Target CDM savings, excluding Local Initiative Programs ("LIP"), is 383 MW of 440 MW target demand savings and 2.47 TWh of 2.7TWh target energy savings.

distributors to pursue or promote CDM, and therefore no disincentive that needs to be removed. Therefore, distributors should not be eligible for LRAM for these CDM activities.⁴

13. This submission is misconceived, because it ignores the full cost impact of CDM on LDCs. When LDCs were responsible for CDM programs, those programs imposed two separate and distinct “costs” on the LDCs. The first was the actual cost of implementing the CDM programs. The second was the lost revenue arising from the reduction of electricity consumption and demand resulting from those programs. The shifting of responsibility for CDM from the LDCs to the IESO, removes the first cost, but not the second.

14. CDM activities financially harm LDCs because conservation and demand management activities reduce consumption and demand billing determinants, which correspondingly reduce variable revenues recovered by LDCs. Though forecast CDM activities are included in CDM adjustments within LDC load forecasts, projects continue to reduce billing determinants through an LDC’s rate period.

15. The LRAM was introduced to make LDCs whole by allowing them to recover lost revenues from CDM consumption or demand savings, thereby removing a disincentive to minimize CDM program savings. Now that the CDM programs will be operated through the IESO, LDCs are not able to minimize CDM program savings and the disincentive is removed. OEB Staff’s comment that LRAM is no longer required because there is no disincentive ignores that LDCs are financially harmed by CDM programs.

16. It is a fact that CDM activities undertaken from 2021 to 2024 will reduce revenues recovered by LDCs (assuming they are effective in achieving their intended effect of reducing consumption and demand), in the same manner as the CFF programs and pre-CFF programs have. The removal of the disincentive for LDCs to minimize CDM programs has not changed this fact. Removing LRAM eligibility from the majority of CDM programs will necessarily reduce LDCs revenues and cause financial harm.

⁴ EB-2021-0106 OEB Staff Discussion Paper, *Updating the Conservation and Demand Management Guidelines for Electricity Distributors* dated August 5, 2021, page 22

17. OEB staff point out that LRAM is no longer necessary for Residential class savings following the completion of the transition to fully fixed rates.⁵ This has reduced the lost revenues and corresponding LRAM claims related to CFF savings for the Residential class. However, over 90% of forecast savings from 2021-2024 programs are from “Business Programs”.⁶ These programs will impact General Service and Large Use classes that have variable rates. The majority of savings will result in lost revenues to distributors. The PWU submits that it is not reasonable for the Board to remove LRAM eligibility for 2021-2024 CDM Framework programs.

CDM Adjustment to Load Forecasts

18. The current CDM adjustment used in load forecasts accounts for forecast CDM in the bridge and test years. The LRAM made LDCs or customers whole for any variances between actual and forecast savings in the bridge and test years and made the LDC whole for any additional savings in the later years of the rate period.

19. The CDM adjustment was previously based on meeting LDC-specific CFF targets or a forecast of LDC-administered projects. This provided a consistent source of data for LDCs to use for CDM adjustment and LRAMVA threshold calculations. OEB Staff comments that a CDM adjustment should still be able to be used, but the calculation should rely on supporting evidence that OEB Staff acknowledge will not be available. OEB Staff discuss the CDM adjustment on page 20 of its comments:

For Interim Framework and 2021-2024 CDM Framework activities, OEB staff’s understanding is that the IESO does not intend to produce savings forecasts (or track actual program results) for these CDM activities at the level of individual distributor service territories. If a distributor proposes to include these CDM activities in its load forecast, the assumptions and supporting evidence for the historical and forecast savings at the distributor level should be provided. The

⁵ EB-2021-0106 OEB Staff Discussion Paper, *Updating the Conservation and Demand Management Guidelines for Electricity Distributors* dated August 5, 2021, page 21

⁶ *2021-2024 Conservation and Demand Management Framework Program Plan*, IESO, dated January 4, 2021, page 4. Business Programs are 93.1% of MW demand savings and 91.4% of GWh energy savings.

same consideration should also apply to any other CDM activity where results provided by the IESO at the distributor level do not exist.⁷

20. It is not clear to the PWU how LDCs can be expected to provide forecast CDM savings, with supporting evidence, if the IESO will not produce savings forecasts at the distributor level.

21. The LRAMVA has historically trued-up variances between actual and forecast savings so the actual forecast did not materially impact either customers or LDCs in the long run. This would not be the case if there is no reliable data on savings within a distributor's service territory and no LRAM true-up mechanism. The absence of an LRAM creates a new incentive for LDCs to overstate forecast CDM savings and for consumer groups to understate savings. This will be an issue if there is no framework for forecasting an appropriate level of CDM.

22. The Board should provide guidance on how LDCs would be expected to forecast CDM savings in its service territory. If there is not a clear framework for determining forecast CDM activities there is a risk that the absence of reliable supporting evidence would prohibit distributors from including any CDM savings from the 2021-2024 CDM Framework as CDM adjustments in its forecasts. If forecast CDM savings are perpetually understated, every LDC will have a load forecast that is necessarily higher than the load it actually expects.

23. A load forecast used for ratemaking purposes that is higher than actual forecast load will cause variable rates to be set lower than the level required for the LDC to recover its revenue requirement. The PWU submits that a CDM framework that causes load forecasts to be overstated cannot result in just and reasonable rates.

24. It is not clear whether any party except the IESO could provide reliable supporting evidence for CDM adjustments in load forecast. That the IESO is not providing supporting evidence should not restrict an LDC's ability to include a reasonable forecast of CDM within its load forecast. The Board cannot expect an LDC to provide unobtainable supporting evidence to avoid foreseeable financial harm. The PWU submits that a

⁷ EB-2021-0106 OEB Staff Discussion Paper, *Updating the Conservation and Demand Management Guidelines for Electricity Distributors* dated August 5, 2021, page 20

framework must be established for LDCs to forecast a reasonable level of CDM savings in its service territory.

All of which is respectfully submitted