PUBLIC INTEREST ADVOCACY CENTRE
LE CENTRE POUR LA DÉFENSE DE L'INTÉRÊT PUBLIC

September 16, 2021 **VIA E-MAIL**

Christine E. Long
Registrar
Ontario Energy Board
Toronto, ON

Dear Ms. Long:

Re: EB-2021-0106 – Updating CDM Guidelines for Electricity Distributors
Submission of the Vulnerable Energy Consumers Coalition (VECC)

Please find attached VECC's submission in the above referenced proceeding, pursuant to the Board's letter of August 5, 2021.

Yours truly,

William Harper
Consultant for VECC/PIAC

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Ontario Energy Board

Updating CDM Guidelines for Electricity Distributors

(EB-2021-0106)

Comments

of the

Vulnerable Energy Consumers Coalition

(VECC)

September 16, 2021

Vulnerable Energy Consumers Coalition

Public Interest Advocacy Centre
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1.0 BACKGROUND

The OEB's current Conservation and Demand Management Requirement Guidelines for Electricity Distributors (the 2015 CDM Guidelines), were originally issued on December 19, 2014, and were established to complement the 2015-2020 Conservation First Framework (CFF). In addition the 2015 CDM Guidelines provided information for distributors on how to apply for rate-funded CDM activities. The CFF was originally intended to run until December 31, 2020, but was revoked as a result of the Ministry of Energy, Northern Development and Mines' directive of March 20, 2019. An Interim Framework was established that took effect from April 1, 2019 to December 31, 2020. On September 30, 2020, the Minister of Energy, Northern Development and Mines issued a directive to the IESO on the CDM Framework for the 2021-2024 period (the 2021-2024 CDM Framework). On January 4, 2021, the IESO released its 2021-2024 Conservation and Demand Management Framework Program Plan (the 2021-2024 CDM Plan), which provides an overview of the CDM programs to be delivered by the IESO in response to the Minister's directive.

Both the Interim Framework and the new 2021-2024 CDM Framework fundamentally change the role of electricity distributors in the program administration and delivery of CDM programs in the province[1]. On August 5, 2021 the OEB released an OEB staff discussion paper, Updating the Conservation and Demand Management Guidelines for Electricity Distributors (the "Discussion Paper"), setting out a proposed approach regarding the role of CDM for rate-regulated electricity distributors in the context the new 2021-2024 CDM Framework as well as with respect to 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. The letter directed that parties interested in providing comments on the Discussion Paper should indicate their intention to do so by August 26, 2021 and provide their written comments by September 16, 2021.

[1] OEB staff Discussion Paper, Updating the Conservation and Demand Management Guidelines for Electricity Distributors, page 4

On August 16, 2021 the Vulnerable Energy Consumer Coalition (VECC) advised the OEB of its intention to provide comments. Set out below are VECC's comments which have been organized according to the sections of the Discussion Paper.

2.0 VECC's COMMENTS

2.1 Issue #1: Distribution Rate-Funded CDM and Role of CDM in System Planning

OEB staff proposes 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.

2.1.1 Local Planning

The 2015 CDM Guidelines[2] allow electricity distributors to seek distribution rate funding for CDM activities, for the purposes of avoiding or deferring infrastructure projects. Similar guidance is also found in the Chapter 5[3] of the Filing Requirements for Electricity Distributors which sets out the requirements for the Distribution System Plan that electricity distributors are required to file when filing a cost of service application under a Price Cap Incentive Rate-setting (IR), or a Custom IR application (collectively referred to as rebasing applications). Also distributors proposing to use the Annual IR must file a DSP within five years of the date of the most recent OEB decision approving its rates in a rebasing proceeding, and are required to do so at five year intervals thereafter while under the Annual IR Index method[4].

The IESO's Local Initiatives Program will provide some funding from the 2021-2024 CDM Framework (recovered through the Global Adjustment charge) for CDM activities to meet needs identified through the regional planning process in specific target areas, but is not intended to comprehensively fund and address all local distribution system needs where CDM could be a possible solution. Therefore, OEB staff proposes that the Updated CDM Guidelines continue to enable distributors to seek distribution rate funding for CDM activities for the purpose of meeting identified distribution system needs. However, in its Discussion Paper, OEB staff proposes that the Updated CDM

[2] Section 4.1
[3] Section 5.1.1
[4] Chapter 5 of the Filing Requirements, Section 5.1.3

Guidelines go farther by requiring distributors to incorporate consideration of CDM activities into their distribution system planning process[5]. The Discussion Paper states:

> "Key steps distributors should be encouraged to take to meet this objective include:
>
> • When assessing system needs, providing sufficient lead time to enable consideration of non-traditional solutions, including CDM activities.
>
> • Defining the types of system needs where CDM activities have the greatest potential to meet the system need.
>
> • Ensuring a process is in place to consider CDM as a potential solution for these types of system needs and to compare CDM to traditional wires solutions."

VECC supports OEB staff's Proposal that the updated CDM Guidelines require electricity distributors to incorporate the consideration of CDM activities into their distribution system planning process. CDM activities offer alternatives to traditional wires-based solutions for meeting distribution system needs and may, in some circumstances, be the preferred solution in terms of efficiency, customer value, reliability and safety – the criteria currently used by the OEB in assessing material investments[6].

However, if the OEB is intends to require distributors to incorporate consideration of CDM activities into their distribution system planning process, then the updated CDM Guidelines (and the Chapter 5 filing requirements) will need to require (as opposed to encourage) distributors to take steps such as those outlined in the Discussion Paper and referenced above.

Set out below are some of the other key elements of the OEB staff Proposal as it pertains to the role of CDM in local distribution system planning and VECC's comments.

Role of Distribution Rate-Funded CDM

OEB staff proposes that the Updated CDM Guidelines indicate that CDM activities that would only benefit participating customers (e.g., by providing incentives for energy-efficient equipment) without addressing a distribution system need are not eligible for

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[5] Page 9

[6] Filing Guidelines, Chapter 5, page 19

distribution rate funding. Staff's rationale is that under both the Interim Framework and the 2021-2024 CDM Framework IESO electricity CDM programs were refocused to be targeted to those who need them the most, including commercial, industrial, institutional and on-reserve First Nations consumers, as well as low-income and income-eligible consumers. Therefore, in OEB staff's view, additional distribution rate funding for CDM activities to benefit participating customers is not necessary and distribution rate funding should only be used to deliver CDM activities that address system needs[7].

VECC agrees with this perspective. However, in VECC's view the distribution rate funding for CDM activities should be strictly limited to addressing the needs of the distributor's distribution system. Subsequent sections of the OEB staff Discussion Paper discuss the distributor's role in supporting regional planning and the IESO's Local Initiatives Program. VECC agrees that there is a role for distributors in supporting broader planning initiatives. However, the distributor's financial support (in terms of funding from distribution rates) for the outcomes of broader planning processes should be based on cost-effectiveness considerations from the distributor's perspective. Financial support for initiatives that also provide cost-effective solutions for broader system needs (e.g., regional transmission) should also be funded on a broader basis (e.g., through the IESO or by transmitters).

Types of CDM

The 2015 CDM Guidelines describe four specific types of activities for which distributors may apply to the OEB for funding[8]. In its Discussion Paper the OEB staff notes that the four categories of CDM activities described in the 2015 CDM Guidelines remain relevant examples of the types of activities that distributors might pursue to meet system needs. However, unlike in the 2015 Guidelines, OEB staff proposes[9] that the Updated CDM Guidelines not exhaustively list the types of CDM activities that could be considered for distribution rate funding, to provide latitude for new and innovative categories of solutions.

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[7] Discussion Paper, page 10
[8] Discussion Paper, page 7
[9] Discussion Paper, page 10

VECC agrees that the Updated Guidelines should provide for flexibility in the types of activities that could qualify as "CDM" for purposes of distributors' applications for rate-funding. However, VECC submits that the Updated Guidelines must be clear that the primary rationale for providing such funding is that the activities concerned will cost effectively defer capital investment that would otherwise be required for distribution infrastructure while also meeting related planning objectives in terms of system operation efficiency, customer value, reliability and safety.

VECC notes that while the list of specific types of CDM activities identified in the 2015 Guidelines included energy storage programs it did not include distributed generation. Given that both of these activities are considered to be distributed energy resources within the context of the OEB's current FEI initiative, an obvious question is whether distributed generation is to be considered a CDM activity. In VECC's view it may be appropriate to do so in the longer term. However, VECC submits that it would inappropriate to include customer-owned distributed generation as a CDM activity that distributors are required to consider until there is greater clarify with respect to the applicability and determination of stand-by rates for distributed generators. As a result, distributed generation should not be considered a CDM activity at this time.

Timing of Applications

OEB staff proposes that the Updated CDM Guidelines strongly encourage distributors to make funding requests for CDM activities as part of rebasing (cost of service or custom IR) rate applications, where possible. However, OEB staff proposes that the Updated CDM guidelines preserve the option for distributors to submit applications between cost of service rate applications, if necessary[10].

VECC agrees that rebasing applications are the best time for the OEB to consider funding requests for CDM activities. During the review of a rebasing application the need for the CDM activity and its ability to best meet that need can be assessed within the context of an up to date Distribution System Plan (DSP). Also, the load impacts of the CDM activity can be factored into the distributor's load forecast to be used for rate setting purposes.

[10] Discussion Paper, pages 10-11

For those CDM funding requests received between rebasing applications, VECC submits that a distributor should be required to demonstrate why the CDM activity was not included in its most recently filed DSP. This will be particularly important if, as proposed, distributors are "required" to incorporate consideration of CDM activities into their distribution system planning process. Also, assuming the CDM activity is to defer an otherwise necessary distribution infrastructure investment, the distributor should be required to clearly explain whether the cost of the CDM activity is covered by or incremental to the funding requirements set out in its most recently filed DSP.

Cost Recovery

OEB staff proposes that, for CDM activities included as part of cost of service rate applications, the Updated CDM Guidelines should indicate that the cost of any approved CDM activity would be recovered through the updated base rates set in that proceeding. For applications filed between cost of service rate applications, the Updated CDM Guidelines should indicate that distributors are requested to propose an approach for cost recovery (e.g., rate rider, use of a deferral account, Incremental Capital Module treatment if appropriate for projects with a large capital component, etc.), and to identify whether any funding to address the identified system need is already included in existing rates. Finally, the OEB staff proposes that the Updated CDM guidelines should indicate that the treatment of distributor spending on CDM activities as capital expenditures or operating expenses should be in accordance with a distributor's capitalization policy[11].

With respect to cost recovery, VECC reiterates its view that cost recovery should only be approved where the CDM activity has been demonstrated to be the preferred alternative for meeting distribution system needs in terms of efficiency, customer value, reliability and safety.

Where cost recovery is approved, VECC submits it should be done in a manner that matches the costs and the benefits from a timing perspective. In many cases, a distributor's capitalization policy will achieve this result. However, the OEB should recognize that this may not always be the case. In those situations where a distributor's

[11] Discussion Paper, page 11

capitalization policy does not provide for a fair matching (over time) of the benefits and costs for an approved CDM activity, the Updated CDM Guidelines should indicate that the distributor can/should propose a deferral account treatment that would achieve this objective.

Pending additional learnings from the FEI initiative, OEB staff proposes that the approach to utility remuneration be the same for CDM activities as it is for other distribution system expenditures. OEB staff also proposes that specific performance incentives to distributors for CDM activities not be included as part of the Updated CDM Guidelines at this time. However, at the same time, OEB staff proposes that the Updated CDM Guidelines could potentially provide some flexibility, by indicating that, should a distributor wish to propose a results-based approach to the recovery of revenues associated with CDM expenditures, an applicant should file an appropriately detailed proposal regarding performance measures, targets and its approach to revenue adjustments.

In VECC's view, the preferred approach (pending the outcomes of the FEI initiative) would be to maintain the same approach to utility remuneration for CDM activities as for other distribution system expenditures, pending the outcome of the FEI initiative. It is VECC expectation that this initiative will provide the necessary framework within which to determine the appropriate basis for utility remuneration for non-wires activities such as DSM. However, should the OEB adopt the staff proposal to allow for results-based approaches to remuneration to be considered and approved in the interim, VECC submits that a key requirement for any such approval should be a demonstration that such an approach to remuneration is cost-effective and will provide for improved outcomes in terms of distribution efficiency, customer value, reliability and safety.

2.1.2 Regional Planning

OEB staff proposes that the Updated CDM Guidelines preserve the ability for distributors to incorporate CDM activities within their distribution system plans that are intended to address (in whole or in part) regional needs. Distributors seeking distribution rate funding for CDM activities should be required to identify whether the proposed CDM activity is intended to address a broader system need identified through the regional planning process. If so, the distributor should provide supporting details regarding any overlap or interaction between the proposed CDM activity and other solutions identified in the regional planning process, including any IESO CDM procurements for local or regional initiatives such as the Local Initiatives Program[12].

In VECC's view it is important to make a distinction between including a CDM activity in a distributor's DSP and providing distribution-based rate funding for the activity. Expenditures included in the DSP are frequently funded, in whole or in part, by third party contributions. VECC agrees that distributor CDM activities driven by regional planning should be included in a distributor's DSP. However, with respect to distribution-based rate funding, the Discussion Paper indicates that cost responsibility (between distributors, transmitters, and possibly the IESO) is still under consideration as part of the Regional Planning Process Review[13].

In VECC's view the cost responsibility for non-wires based solutions (particularly for broader regional or system needs) should not result in distributors incurring responsibility for more costs than if a more traditional approach was adopted. Indeed, since the optimal solution is presumably the more cost-effective solution, there should be some way for those who would traditionally pay if a more traditional (wire-based) solution was adopted to compensate a distributor for any costs the distributor incurs and still be better off financially.

VECC submits that distribution-based rate funding for CDM activities driven by regional planning processes should be limited to and justified on the basis of cost savings attributable to the deferring of needed investments in distribution system infrastructure considered during the regional planning process. Any additional funds required by distributors should come from either transmitters or the IESO (e.g., the Local Initiatives Program.

2.2 Issue #2: Role of Distributors in Local Initiatives Programs

The IESO's 2021-2024 CDM Plan includes a budget of $65.6 million over the four-year period for the Local Initiatives Program (LIP), which will deliver CDM savings in targeted

[12] Discussion Paper, page 12
[13] Discussion Paper, page 12

areas of the province, as identified through the regional planning process. This funding for the LIP is recovered from all Ontario electricity ratepayers through the Global Adjustment charge. The IESO has indicated that it sees value for distributors in the target areas playing a partnership role in the LIP to support the development and deployment of LIP initiatives. The distributor and the IESO are expected to reach agreement on the responsibilities and projected costs to be borne by each party. However, any costs incurred by a distributor through this partnership role would not be eligible for funding from the 2021-2024 CDM Framework budget[14].

In May 2021 the OEB established a new LIP Deferral Account to enable distributors to track LIP partnership costs and seek recovery of these costs through distribution rates. Eligible costs would include those associated with procurement support, providing access to data, supporting evaluation, measurement, & verification activities, and supporting marketing and outreach activities, but would not include the cost of resources procured through the LIP. The LIP Deferral Account would only be used by distributors that partner with the IESO for the LIP. Upon disposition of the account, the distributor must demonstrate that any costs have been prudently incurred and are related to a LIP partnership with the IESO. Distributors will also be expected to demonstrate how their LIP activities deliver value to their customers[15].

OEB staff does not propose any changes to the approach described in the letter of May 28, 2021 regarding distributor participation and cost recovery in the LIP[16].

VECC generally supports the approach set out in the OEB's May 28, 2021 letter within the following context. LIP partnership with the IESO is optional for distributors[17]. As a result, VECC would expect that any distributor entering such a "partnership" to have undertaken an evaluation as to the costs and benefits of doing so (i.e., a business case). In VECC's view this is consistent with and should be the basis for distributors demonstrating "how their LIP activities deliver value to their customers". VECC submits that, in order to the OEB to approve disposition of the LIP Deferral Account (i.e.,

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[14] Discussion Paper, page 13
[15] Discussion Paper, page 14
[16] Discussion Paper, page 14
[17] EB-2021-0106, OEB Letter May 28, 2021, page 2

recovery from rate payers) a distributor must demonstrate the partnership with the IESO was entered into on the basis that it would provide value to its customers by addressing local distribution needs on a cost effectiveness basis. As result, the Updated CDM Guidelines should require the distributor to have undertaken such an assessment in advance of entering into the partnership and to provide this assessment (business case) as part of its application for disposition of the LIP Deferral Account.

2.3 Issue #3: Distributor Staffing Costs for CDM and Supporting Activities

OEB staff proposes that the Updated CDM Guidelines indicate that any staffing costs that are specific to a distribution rate-funded CDM activity (see section 2.1.1above) or to a distributor's partnership in the LIP (see section 2.2 above) would be reviewed as part of the funding request for the CDM activity (preferably in a cost of service application, or in a stand-alone CDM application if necessary), or as part of the application to dispose of eligible costs recorded in a distributor's LIP Deferral Account, respectively.

VECC agrees with these proposals. In the case of staffing costs related to a distributor's partnership in the LIP, the OEB should require the distributor to demonstrate such costs were identified and considered in the distributor's evaluation/decision to enter into partnership with the IESO.

OEB staff also proposes that the Updated CDM Guidelines indicate that, in the absence of LIP partnership activity, distributors should not request funding through distribution rates for dedicated CDM staff to support IESO programs funded under the 2021-2024 CDM Framework. The Discussion Paper acknowledges that distributors may need to carry out minor efforts to make their customers aware of applicable IESO programs, tools, guidelines, and information as part of the key accounts or customer service functions, particularly during the transition to the 2021-2024 CDM Framework. The Updated CDM Guidelines should indicate that such efforts are expected to be limited in nature and non-duplicative of the IESO's activities[18].

VECC agrees with both of these proposals. In the case of cost incurred by distributors to make their customers aware of applicable IESO programs, tools, guidelines and

[18] Discussion Paper, pages 16-17

information, VECC views such activities and costs to be part of a distributor's ongoing responsibility to keep its customers informed on relevant issues. Also, VECC expects that such costs would not exceed a distributor's materiality threshold.

The Discussion Paper also notes 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 proposes 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 during a rebasing application[19].

VECC agrees with this proposal.

2.4 Issue #4: Impact of CDM on Distributor Revenues, Including Lost Revenue Adjustment Mechanism

2.4.1 Treatment of CDM Impacts in Load Forecast

OEB staff proposes that the Updated CDM Guidelines indicate that distributors are expected to consider the historical and forecast impacts of CDM activities where sufficient information is available, for the purpose of making the load forecast as accurate as possible.

OEB staff expects that this would likely include the impact of any distribution rate-funded CDM activities and potentially LIP activities, with supporting evidence for the forecast savings. In addition, this may include persisting CDM impacts from the CFF and previous CDM Frameworks, and could potentially also include impacts of the Interim Framework and 2021-2024 CDM Framework activities (or other activities such as any federal CDM programs).

VECC agrees with OEB staff that distributors need to consider the historical and forecasted impacts of CDM activities for purposes of making the load forecast used for rate setting as accurate as possible. However, VECC has some concerns regarding the types of CDM activities that should explicitly be accounted for as well as the approaches suggested by OEB staff for doing so.

[19] Discussion Paper, page 17

Distributor's load forecasts for the test year are typically based on an analysis of historical data through a multivariate regression analysis. The Chapter 2 Filing Guidelines also provide for the use of a normalized average per customer use model. Although this later approach has not be recently been employed by distributors, it too relies on an analysis of historical data. The Discussion Paper acknowledges that care must be taken to ensure that that the impact of CDM is not double counted and uses the example of persisting CDM savings from previous years already being captured in a normalized average use per customer model[20]. In VECC's view similar issues will arise with multivariate regression model where the historical data will capture not only the impact of the previous CDM framework but also the Interim Framework and part of the 2021-2024 Framework, depending upon the historical years used in the analysis.

The Discussion Paper also suggests that the load forecast could incorporate the impact of other activities such as any federal programs. In VECC's view adjusting the load forecast for such impacts could again lead to "double counting", particularly for load forecasts based on a regression analysis model. Taking federal conservation/efficiency programs as an example, such programs have also existed historically. Unless the historical impact of federal conservation/efficiency programs has been explicitly built into the regression analysis model, the coefficients estimated for the other independent variables used in the model will implicitly incorporate the impact of the federal programs that occurred over the historical period used to estimate the model. As a result, using the regression model to forecast load will implicitly incorporate a continuation of similar impacts (i.e., if the federal programs were decreasing load over time then the forecast will inherently build in a continuation of federal programs that continue this trend). The result being that any explicit adjustment for new federal will also lead to a double counting of their impacts.

The same issue arises with respect to CDM activity initiated by the IESO and Ontario's electricity distributors. Again, unless the resulting savings from past IESO/distributor CDM activity has been explicitly incorporated into the regression model, the coefficients estimated for the other independent variables used in the model will implicitly

[20] Discussion Paper, page 20

incorporate the impact of the CDM activity that occurred over the historical period used to estimate the model and a continuation of similar annual savings achievements will be factored into the load forecast. However, in this case, the issue is particularly problematic as the targeted savings from the 2021-2024 framework are 2.7 TWh[21] (or roughly 675 GWh annually) while the savings target for the 2015-2020 savings from IESO and LDC programs was 7.4 TWh (roughly GWh annually) and actual saving at the end of 2018 were 5.77 TWh (roughly 1,443 GWh annually) [22]. As a result, regression models that do not explicitly account for historic CDM savings may over-estimate the impact of future CDM activity even before any further adjustment.

The Discussion Paper addresses this issue by suggesting that an activity variable for "CDM activity", based on the historical and forecast level of savings from these CDM activities in a given year, could be incorporated into either of the commonly used load forecasting models[23]. In VECC's view this could be the solution provided a common definition is used for both the historic and forecast CDM activity. For example, it would be inappropriate to base the historic CDM activity solely on savings from IESO and LDC programs but to also include in the forecast CDM activity savings from federal programs. Also, VECC notes that past efforts by distributors to include a CDM activity variable in the regression model have often led to counter-intuitive results such as coefficients for the CDM variable that are significantly different from 1.0[24]. In VECC's view the ability to account for CDM by including a CDM activity variable will be utility specific and in certain situations other approaches will be required[25].

2.4.2 Lost Revenue Adjustment Mechanism (LRAM)

Under the 2015-2020 Conservation First Framework electricity distributors played a key role in the delivery of CDM programs. To ensure that the potential for distribution revenues to be reduced due to CDM activities did not act as a disincentive to

[21] 2021-2024 Conservation and Demand Management Framework (ieso.ca)
[22] IESO, Energy Efficiency Programs Progress Report, Fourth Quarter 2018, page 1
[23] Discussion Paper, page 19
[24] Since CDM is meant to directly reduce load, one would expect the coefficient for the CDM variable to be close to 1.0 or 1.0 adjusted for losses.
[25] One such approach is that used by Hydro One where CDM savings are added to the historical load data, the load forecast model is used to forecast load assuming no past or future CDM savings and then the forecast is reduced by the forecast savings from CDM including the persisting savings from earlier years.

distributors to pursue or promote CDM, the 2015 CDM Guidelines provide a Lost Revenue Adjustment Mechanism (LRAM) to distributors. This involved the use of a Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) to track any impact of CDM not built into distribution rates. It should be noted that the equivalent of LRAM was not provided for many other external factors that affect electricity consumption and expose distributors to revenue risk due to deviations from forecast, including federal conservation programs.

In its Discussion Paper OEB staff proposes that that LRAM is not needed in the Updated CDM Guidelines as a default approach for new CDM activities, but could be an option for distribution-rate funded CDM activities and LIP activities only, on an exception basis. OEB staff also notes that LRAM will be continue to be required as a transitional measure for the wind-down of CFF and for the Interim Framework's Local Program Fund activities[26].

CCF Wind-Down

OEB staff proposes that the Updated CDM Guidelines should indicate that CFF-related activities completed after Dec 31, 2020 are eligible for LRAM if undertaken consistent with the Conservation First Framework timelines extension Directive[27]. The Updated CDM Guidelines would also encourage distributors to dispose of CFF-related LRAMVA balances as soon as possible, and require all CFF-related LRAMVA balances to be brought forward for disposition by the 2023 rate applications at the latest[28].

VECC agrees with these proposals. VECC also agrees that, absent supporting verification of the savings from the IESO, the distributor must provide sufficient documentation on project savings to support the LRAM claim. Furthermore, in VECC's view this documentation must include independent third-party verification of the savings. In this regard, VECC notes there is a difference between verification of the actual CDM impacts (in terms of kWs and kWhs) and verification of the lost revenue (i.e., the revenues lost due to the CDM impacts). From VECC's perspective, it is the former that requires third party verification. The calculation of the resulting revenue loss is

[26] Discussion Paper, pages 21-22
[27] Order in Council 793/2021
[28] Discussion Paper, page 22

something that can readily be done by the distributor and easily verified by the OEB (and other interested parties).

Interim Framework

The 2019-2020 Interim Framework included $27 M in funding for Local Program Fund activities[29]. Some distributors may have been involved in program delivery through the Local Program Fund. OEB staff proposes that distributors continue to be eligible to apply for disposition of the LRAMVA for Local Program Fund activities. In such cases, distributors would be required to provide sufficient supporting documentation on project savings to support their claim. Distributors should not be eligible for LRAM for other CDM activities funded through the Interim Framework.

VECC also agrees with these proposals. Again, it is VECC's view that, absent IESO verification of the demand and energy savings, independent third party verification of the savings should be required.

IESO 2021-2024 CDM Framework (excluding LIP)

The OEB staff proposes that distributors should not be eligible for LRAM for these CDM activities. The Discussion Paper notes that the IESO will have responsibility for these activities with no direct role for distributors to pursue or promote CDM, and therefore no disincentive that needs to be removed[30].

VECC agrees with the OEB staff proposal and the supporting rationale.

CDM Funded by IESO as Part of LIP and CDM Funded by Distribution Rates

The Discussion Paper notes that, as these CDM activities are being undertaken to address a specific system need and are being relied upon to defer infrastructure, distributors should have a good understanding of the expected program savings. . As a result, it is expected that distributors will be able to estimate the impact of these activities relatively accurately in their load forecast, similar to how they are expected to forecast the impact of other system upgrades they undertake. For this reason, OEB staff

[29] www.ieso.ca/en/Sector-Participants/Energy-Efficiency/2019-2020-Interim-Framework
[30] Discussion Paper, page 22

proposes that LRAM may not be necessary in all cases and should not be the default approach for these activities[31].

However, OEB staff proposes that distributors should have the option of requesting an LRAMVA (at the time of rebasing or through a stand-alone application) if necessary, so there is no disincentive to these planning options. In this scenario, distributors should be prepared to also demonstrate how they intend to support the tracking of lost revenues and the nature of the documentation that they propose to provide at the time of LRAMVA disposition. If a distributor wishes to seek LRAM for LIP activities initiated between rebasing applications where distributors are not requesting additional rate funding, OEB staff proposes that distributors would need to come forward to the OEB to request an LRAMVA for these activities[32].

VECC agrees with OEB staff that LRAM should not be the default approach for these activities. In the case of CDM activities funded by distribution rates, the OEB staff proposals call for prior approval of such activities[33]. VECC would expect that issues such as lost revenues would be included in a distributor's overall assessment of the CDM activity as the preferred option for meeting its system needs. If a distributor intends to seek an LRAM for such activities, the request for such should be included as part of the distributor's application for approval to include the CDM activity spending in distribution rates. In such instances, the application also should also be required to address: i) the unique circumstances that give rise to the need for an LRAM, ii) the impact the LRAM and/or lack thereof has on the assessment of that the CDM activity was the preferred approach for meeting the distributor's system needs and iii) the base line savings (kW and kWh) to be used in the LRAMVA calculations. Overall, VECC would expect the distributor to be required to demonstrate that the availability of the LRAM is critical to the assessment of the CDM activity as the preferred solution.

In the case of LIP activities, the OEB staff proposals do not call for pre-approval of inclusion of the related cost in distribution rates but rather relies on the OEB's establishment of an LIP Deferral Account to provide for recovery of such costs after the

[31] Discussion Paper, pages 22-23
[32] Discussion Paper, page 23
[33] Discussion Paper, pages 10-11

fact. As a result, unless the timing of the LIP is such that it can be included in a rebasing application, there is no opportunity for the distributor to apply for and justify the need for an LRAM in advance of undertaking the activity or seek approval for an LRAMVA baseline for the CDM activity. In VECC's view this is problematic.

It is VECC's expectation that the potential for lost revenues would be one of the considerations that a distributor would have to account for in determining whether or not to enter into partnership with the IESO and, as such, would be addressed in the "business case" undertaken to justify its participation. As a result, if the distributor intends to apply for LRAM, this business case is the place where the need for an LRAM should be documented. Again, VECC would expect that demonstration of this need would be similar to that discussed above in relation to LRAM for distribution rate funded CDM activities. Overall, the Updated CDM Guidelines should include these requirements.

The OEB should also consider requiring distributors to file a letter of intention when it first starts to record costs in the LIP Deferral Account and to, at that time, file a copy of the business case[34] that supported its partnership with the IESO. This letter and the accompanying business case would then form part of the evidence relied on by the distributor when seeking disposition of the LRAMVA account.

2.5 Issue #5: CDM/DSM Co-ordination

Under the 2021-2024 CDM Framework Directive, the IESO is directed to co-ordinate the delivery of CDM programs with entities delivering DSM programs, to the degree reasonably practicable. However, while DSM/CDM co-ordination will primarily be a responsibility for the IESO in the 2021-2024 CDM Framework, there may still be opportunities for co-ordination between natural gas and electricity distributors.

OEB staff proposes that the Updated CDM Guidelines should encourage distributors to co-ordinate with entities delivering DSM programs, to the degree reasonably practicable, for any CDM programs they have a role in delivering, with the goal of reducing costs and improving efficiencies[35].

[34] A key component of the business case would be documentation of the baseline to be used for the LRAMVA.
[35] Discussion Paper, page 24

VECC has no issues with the OEB staff proposal.