By EMAIL and RESS

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September 16, 2021
Our File: EB20210106

Ontario Energy Board
2300 Yonge Street
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Attn: Christine Long, Registrar

Dear Ms. Long:

Re: EB-2021-0106 – CDM Guidelines – SEC Comments

We are counsel to the School Energy Coalition ("SEC"). Pursuant to the Board's letter of August 5, 2021, this letter provides SEC's comments on the OEB Staff Discussion Paper "*Updating the Conservation and Demand Management Guidelines for Electricity Distributors*".

In general, SEC notes that we found the Discussion Paper took the right approach, and with a few exceptions identified and proposed appropriate solutions for each of the changes that will arise as a result of the 2021-2024 CDM Framework. Our comments below should not be interpreted as generally critical of the OEB Staff proposals.

Integrated Resource Planning

OEB Staff correctly points out that distributors will retain responsibility to identify CDM alternatives to capital investments in their system (a subset of non-wires alternatives, or NWAs). This is an important area, one in respect of which the Board just finished a proceeding on the gas side (EB-2020-0091), and which is being discussed actively in the Framework for Energy Innovation Working Group (EB-2021-0118), with specific application to electricity distributor system constraints.

SEC notes, however, that IRP is obviously a much broader subject than CDM alone, as is being displayed clearly in the FEIWG process. This Discussion Paper deals only with the CDM component, a narrow focus, and so it was perhaps out of scope to describe the IRP context. That context is important to the Board's consideration of changes to the CDM Guidelines.

In SEC's view, CDM and other NWAs should be built into the DSP process for each distributor. Rather than look at a traditional wires investment and then see if there are alternatives available, the better approach is for the planners developing the utility's DSP to start with a range of options for the growth and evolution of their system, some of which rely on wires and some do not. System planning is an agnostic choice between available options. Looked at from that perspective, CDM in this context is not primarily about CDM; it is primarily about system planning.

Once one accepts that the scope of system planning has to expand, four implications appear to us to be true:

1. ***Timing of Application.*** Applications for funding of CDM programs should be part of consideration of a DSP, since the development of this category of system-driven programs should be an integral part of the development of that DSP. In the same way as the Board refuses to consider a capital investment plan if it is not presented in the context of a DSP, so too the Board should insist that a CDM plan have the same context. Necessarily, this means that the optimum time to apply for approval of CDM activities should be on rebasing. We agree with OEB Staff in that respect. OEB Staff, however, proposes that standalone applications for CDM plans should be allowed. SEC submits that such applications should be the rare exception, and the Board should be reluctant to consider CDM plans that are not presented in the context of a full, up to date DSP.

2. ***LDC Staffing.*** It also necessarily follows that LDCs should be changing the composition of their planning staff, adding expertise in CDM and other NWAs. LDCs who do so should be able to recover the costs of those personnel as part of the OM&A budgets considered by the Board at rebasing. By the same token, on each rebasing the Board and parties should be looking at the composition of the LDC's planning staff, to make sure it is evolving to manage a more integrated approach to serving customer requirements.

3. ***Cost-Effectiveness.*** Just as with DSM and Gas IRP, it will be important for the Board to provide guidance to LDCs as to the appropriate methods of testing the cost-effectiveness of system-related CDM. SEC believes that this is one topic that will likely be on the agenda for the FEIWG in the near future, and recommends that the Board seek specific input from that group on this issue.

4. ***Market Response.*** SEC believes it will be increasingly important for distributors to make their forecast system needs public in as detailed a manner as possible, and on an ongoing basis, so that the market can respond with CDM and other proposals to meet those needs with private capital rather than utility capital. SEC proposes that the Board should require regular, public transparency by LDCs with respect to their system needs, and should provide guidance to LDCs as to how they should respond to third party proposals to meet those needs.

Two other items arise in the context of the IRP component of CDM.

First, we agree with OEB Staff that accounting for CDM investments should generally be consistent with the normal capitalization policies of the utility. That is, if the accounting procedures require that something be expensed, the fact that it is a CDM-related expenditure should not change that.

Second, we agree with OEB Staff that it is not necessary at this time to provide incentives to LDCs to implement CDM in the system planning context. We agree that revamping utility remuneration will probably be a major issue down the line in the FEI process, but when the full range of NWAs are considered it is a much broader question than can be dealt with as part of the CDM Guidelines.

LIP Costs

OEB Staff proposes that the Board's letter from May be established as a policy for the general recovery of distributor costs associated with Local Initiative Programs. In general, SEC does not disagree, as long as the distributor's participation in the LIP is driven by distribution system benefits being provided to its customers through the process.

Conversely, if the distributor's involvement is solely because the IESO program is contacting the distributor's customers as part of an IESO program, it is difficult to justify this as a distribution expense. Programs that are intended to deal with a regional issue, for example, should generally not be funded from local distribution rates.

Staffing Costs

SEC generally agrees with OEB Staff that costs associated with CDM planning for system needs (as discussed above), and costs associated with normal customer engagement, should be recoverable.

In the latter case, the fact that part of customer engagement includes providing information to customers on IESO programs should not prevent recovery. The essence of the activity in that case is serving the needs of distribution customers, not delivering IESO programs. In our view, if the staff of the distributor are providing information on IESO programs in the same way as they are providing information on NRCan programs, or municipal programs, then it should be considered a normal part of good customer engagement.

Load Forecasts

We agree with OEB Staff that including CDM in load forecasts is about ensuring that the forecast is accurate. Whether the influence on the forecast is an IESO CDM program, or a change in the building code, or price elasticity due to a big jump in commodity costs, the influence should be factored into the forecast using a rigorous approach.

SEC disagrees slightly with OEB Staff with respect to LRAMVA. We agree that a LRAMVA should not be a default mechanism. An LRAMVA is designed to remove the disincentive for a utility to deliver programs that reduce its own revenues, by making the utility whole with respect to those lost revenues. If IESO is delivering the programs, the disincentive is not there.

OEB Staff do suggest that an LRAMVA may be appropriate where CDM is used to displace system capital. SEC is not able to identify an example in which that would be the right answer. While the cost-effectiveness analysis for the CDM may take account of lost revenues in some cases (to protect other customers from subsidizing the CDM program), it is not in our view appropriate to replace those lost revenues through an LRAMVA.

SEC therefore submits that, unless OEB Staff or other parties can identify examples where an LRAMVA would still be required, the Board would be better to terminate the LRAMVA altogether (except for those grandfathered to deal with CFF impacts). If there arises an unusual case where an LRAMVA would be required, the LDC is still free to apply for one.

CDM/DSM Co-ordination

Because broad-based CDM programs (similar to the DSM programs being delivered by Enbridge) will be delivered by IESO, there should be little overall need for co-ordination between distributors and Enbridge. CDM Programs implemented by LDCs to meet system constraints will rarely cause any material reduction in gas use, and vice versa.

It is likely, in fact, that either Gas IRP or Electricity IRP may include increases in the demand for the other energy source. An LDC with a constraint in serving a large customer may as a temporary solution advise the customer to rely on an onsite gas generator rather than incur the cost of a new feeder, but this would not be a CDM program.

The more likely scenario is changes in the other direction, with increasing electrification used as a means of decarbonizing energy in Ontario. At some point, SEC believes it would be useful if the Board considered guidance for LDCs on load-building activities of this type.

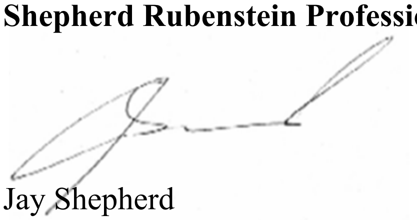
Right now, it is likely not OK for an electricity distributor to provide subsidies to new home builders to install geothermal heating and cooling, even if those subsidies are less than the cost to Enbridge to supply gas to those same buildings. In fact, today Enbridge would not be allowed to reimburse the LDC for those subsidies, even as a cost-effective non-pipes alternative. This kind of co-ordination and co-operation – fuel switching to benefit the customer – is not possible. SEC believes that the Board should look at this question in the near term and provide guidance.

Conclusion

Despite the comments, SEC generally supports the proposals in the Discussion Paper, and thanks the Board for the opportunity to provide input.

All of which is respectfully submitted.

Yours very truly,
Shepherd Rubenstein Professional Corporation



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cc: Ted Doherty, SEC (by email)
Interested Parties (by email)