



**POWER
WORKERS'
UNION**

August 29, 2022

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Via OEB RESS, email to registrar@oeb.ca; FEI@oeb.ca.

Re: EB-2021-0118, Comments on FEIWG Report(s) to the OEB

The Power Workers' Union ("PWU") represents a large portion of the employees working in Ontario's electricity industry. Attached please find a list of PWU employers.

The PWU appreciates the opportunity to provide input on the OEB's Framework for Energy Innovation (FEI) Working Group (WG) reports to the OEB. The PWU is a strong supporter and advocate for the prudent and rational reform of Ontario's electricity sector and recognizes the importance of low-cost energy to the competitiveness of Ontario's economic sectors.

The PWU believes that OEB policy and initiatives should deliver energy at the lowest reasonable cost while stimulating job creation and growing the province's gross domestic product (GDP). We are respectfully submitting our detailed observations and recommendations.

We hope you will find the PWU's comments useful.

Sincerely,

Jeff Parnell
President

Encl.

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PWU Feedback on the FEIWG and subgroup reports – EB-2021-0118

August 29, 2022

The PWU supports the Ontario Energy Board's (OEB) efforts to advance the Framework for Energy Innovation (FEI) as it relates to Distributed Energy Resources (DERs) and welcomes the opportunity to comment on the FEI Working Group's (FEIWG) final reports. The PWU has been an observer in the FEIWG proceedings since they began. The following comments reflect where it is critical for the OEB to prioritize next steps to ensure the cost-effective adoption of emerging technologies to reliably meet Ontario's emerging electricity system needs at the lowest cost for ratepayers. These comments are based on three critical factors:

- 1) The FEIWG significantly advanced the definition of the DER integration challenge, while leaving many critical questions unanswered;
- 2) The development of the Benefit Cost Analysis (BCA) framework is central to achieving Ontario's objectives for the FEI. As well, the associated implications for utility incentives and DER integration is incomplete, as stated in the FEIWG report, with much work remaining to be accomplished; and,
- 3) There is no quantitative basis for determining the "value of DERs", the critical foundation for the OEB's work.

This submission provides comments on the activities of the FEIWG and specific responses to the four groups of questions posed by the OEB in their invitation letter.

FEIWG Activities

The PWU appreciates that FEIWG's Final Report and subgroup reports are the culmination of more than a year of discussion and development. In May 2021, the OEB confirmed the priority workstreams of the Framework for Energy Innovation Working Group (FEIWG):

- Investigate and support utilities' use of DERs they do not own as alternatives to traditional solutions to meet distribution needs; and
- Ensure that utilities' planning is appropriately informed by DER penetration and forecasts.

The FEIWG established subgroups to examine the following topics in greater detail:

- The ***Benefit Cost Assessment (BCA) Subgroup*** was tasked with defining an approach to measure the benefits and costs of DER solutions as alternatives to traditional distribution investments.
- The ***Utility Incentive (UI) Subgroup*** was asked to explore appropriate incentives for utilities to adopt DERs for distribution uses that do not require equity investment by the utility.
- The ***DER Integration (DERI) Subgroup*** was convened to identify information about DERs that distributors require to plan and operate their systems effectively.

While the submission of the FEIWG Report to the OEB signals the completion of the work of the FEIWG, the final report notes more work needs to be done.¹ The FEIWG Report identifies the overarching and cross-cutting issues that emerged from the work of its subgroups and provides recommendations for

¹ FEIWG Final Report, June 2022, page 4

next steps considerations in relation to the priority workstreams and the broader FEI goal of facilitating cost-effective integration and use of DERs. The OEB has requested stakeholder comments on the following matters related to the reports:

General

1. What is the relative priority of the issues and next steps identified by the FEIWG?

Developing a BCA Framework

2. What is the appropriate scope of a BCA Framework? In other words, should a narrow or broad set of benefits and costs be considered with respect to deployment of DERs as alternatives to traditional solutions to meet electricity distribution system needs?

Developing and implementing utility incentives

3. How might the OEB remove disincentives for utilities to adopt DER solutions?
4. Is providing incentives to distributors to facilitate adoption of DER solutions (i.e., non-wires alternatives (NWA)) appropriate? Under what circumstances?
5. If incentives are appropriate, how should the OEB select/develop the form of incentive that should be available?
 - a) Are there options the Incentive Subgroup did not identify that should be considered?

Ensuring distribution planning is informed by DER adoption

6. What should the OEB consider when setting expectations to ensure distributors appropriately consider DER adoption when planning and operating their systems (e.g., industry guidance, additional filing requirements for Distribution System Plans, new requirements for reporting and sharing information)?

PWU Responses to the OEB's Questions

The PWU believes that the OEB's final framework should ensure that the cost-effective adoption of emerging technologies for reliably meeting Ontario's emerging electricity system needs is at the lowest cost to ratepayers.

General – Q1. What is the relative priority of the issues and next steps identified by the FEIWG?

The FEIWG report identified several next step actions which were purposefully not prioritized by the FEIWG. While the report suggests many next steps can be initiated in parallel, the PWU believes that there are critical questions that should be answered before a policy is finalized. These matters will have significant impacts on other electricity sector policy initiatives. The PWU suggests that the FEIWG-identified next steps should be prioritized into three areas:

- Identifying and verifying information critical for decision-making (FEIWG Next Steps 2 & 3);
- A "data" informed planning process (FEIWG Next Steps 1 & 6)
- Exploring policy options (FEIWG Next Steps 4, 5, & 7)

Priority #1 – Identifying and verifying information critical for decision-making (FEIWG Next Steps 2 & 3);

The FEIWG report notes that “the energy sector is undergoing a significant transition.” During its proceedings, the FEIWG acknowledged that it is important to recognize that this energy transition, as it relates to Distributed Energy Resources, stems from three factors:

- 1) The provincially set rate programs for Net Metering and the Industrial Conservation Initiative (ICI) have been the critical drivers for DER adoption in Ontario and the reason this topic is part of the FEIWG consultations.
 - These are high-cost alternatives versus other options for meeting system needs with these higher costs being shifted to Class B ratepayers.²
 - Without such subsidies, interest in DER investment can be expected to significantly decline with an associated reduction in ratepayer costs.
- 2) Electrification of the economy, particularly EV adoption, is anticipated to result in new forms of DER deployment.³
 - EV adoption is increasing demand but also providing opportunities to shift charging away from system peaks. These are longer term considerations which are not adequately reflected in the IESO’s current reference planning scenario.
- 3) The expiration of the economic life of Ontario’s generating assets, most notably the planned retirement of the Pickering Nuclear Generating Station by 2025, creates a pressing need for new generation.
 - The Ministry has directed the IESO to aggressively procure new capacity and undertake other measures to address the risk of inadequate supply.⁴ The IESO has stated that DERs are unlikely to be able to cost-effectively address these near-term needs.⁵

As a result, it is unclear whether this “energy sector transition” has near term urgency. Before proceeding further down this path, the OEB and electricity sector stakeholders should develop a clear cost/benefit mechanism and DER penetration assumptions. This would help clarify the needs of Ontario’s electricity system for cost-effective DER and the system planning resources applied to it.

For these reasons the PWU believes the following two FEIWG recommendations should be given the highest priority:

2. Actively Engage in the Broader Energy Sector Policy Development Activities. As the FEIWG report states, the evolution of the energy sector is being influenced by many organizations and it would be best that these efforts lead to a cohesive, rational framework for DER integration,

² OEB Market Surveillance Panel Report, The Industrial Conservation Initiative: Evaluating its Impact and Potential Alternative Approaches, Dec 2018.

³ FEIWG Final Report, June 2022, page 4.

⁴ The IESO has been asked to increase the capacity under procurement, accelerate the procurement of new capacity, explore renewal of existing hydro assets, initiate contracts for several assets, and accelerate CDM measures, ref ministerial directives found at <https://www.ieso.ca/en/Corporate-IESO/Ministerial-Directives>, IESO LT RFP Design, June 2022.

⁵ IESO Webinar on DER Potential Study, June 22, 2022.

rather than a host of potentially inconsistent and at times conflicting regulatory requirements.⁶ Good governance will be required to ensure a cost-effective energy sector transition. This was acknowledged in the Ministry of Energy's 2021 consultation on effective long-term planning.⁷ Stakeholders made several recommendations on the governance role of the OEB within Ontario's energy sector, including the impacts of rate programs.⁸ Clarifying the role of the OEB in broad, energy sector policy development is critical for advancing the DER discussion.

3. Establish an Initial Framework and Template for Benefit Cost Analysis (BCA). The FEIWG and BCA subgroup reports identified important steps to be completed before a BCA framework can be finalized. These included *"the development of Ontario-specific assumptions, inputs and methods for a BCA analysis."*⁹ The FEIWG report emphasized the need for sound and robust evidence-based policy.¹⁰ Finalizing the considerations to be included in a BCA is important to the scope of the other next steps noted in the FEIWG report.

Additionally, the PWU encourages the OEB to prioritize a third initiative that addresses the second of FEIWG's initial priorities: *"to ensure that utilities' planning is appropriately informed by DER penetration and forecasts."*

The FEIWG report acknowledged that the OEB's approach is stepwise and incremental.¹¹ A high-level, integrated perspective on the drivers of DER adoption and the magnitude of costs saved, incurred, and avoided by them is missing. In fact, whether DERs are cost effective options at a material scale in Ontario has not been quantifiably established. The IESO's recent DER Potential study indicates they may only offer 1250 MW of capacity under the IESO's current planning assumptions, and these are mainly BTM energy management solutions.¹² As a result, contrary to FEIWG's statement, it has not yet been determined that *"the sector should prepare for a high DER penetration future."*¹³

New Recommendation: To best inform the OEB and potentially government with respect to the available policy options and their urgency, the OEB should work to have guidance established on where DERs may provide value and what that value may be to Ontario's electricity sector. This guidance could be informed by an aggregated provincial level BCA. Reliable and transparent quantitative data provides the important evidence-base to inform:

- The scale of the potential financial implications for the electricity sector related to the assessment of the cost-benefits of the DER-related initiatives of the OEB and IESO;
- The relevant scope of the BCA framework, such as the degree to which societal value elements or total electricity system value elements should be considered given their aggregated benefit;

⁶ FEIWG Final Report, June 2022, Page 16.

⁷ Ministry of ENDM, Reviewing Ontario's long-term energy planning framework, January, 2021.

⁸ Green Ribbon Panel, Submission for the Ministry of Energy, Northern Development and Mines - review of Ontario's long term energy planning framework, 2021.

⁹ FEIWG BCA Subgroup Report, June 2022, Page 33.

¹⁰ FEIWG Final Report, June 2022, page 6.

¹¹ FEIWG Final Report, June 2022, page 3.

¹² IESO DER Potential Study webinar materials, June 22, 2022, page 24.

¹³ FEIWG Final Report, June 2022, page 4.

- Discussions on the rate-basing of enabling infrastructure;¹⁴
- Commercially viable DER options and their achievable potential benefits; and,
- The prioritization of utility and IESO planning integration and coordination, alignment and coordination with the natural gas sector, and coordination of the DER Initiatives across the energy sector.¹⁵

Priority #2 – A “data” informed planning process (FEIWG Next Steps 1 & 6)

In several places the FEIWG report emphasizes that while the FEI related policies are being developed, there is an ongoing suite of initiatives and activities related to DER adoption which should not result in missed opportunities while ongoing policy development proceeds.¹⁶ While a robust policy framework requires the completion of the Priority #1 activities above, there remains a need to provide clearer near-term guidance until a final framework is in place. As a result, it is important that the OEB ensures progress on two FEIWG recommendations:

1. Provide Further Guidance on the Role of Distributors and the Expectations of Them.

Guidance is particularly needed with respect to *“their relationship to third party DER providers and customers, and modifications to the planning and operation of their systems”* on *“practical things like how to modify the development of their next Distribution System Plan to be consistent with OEB expectations.”*

6. Establish an Initial Policy for the Sharing of Information between LDCs, DER Providers, and Customers to support distribution planning and operations. Regulated utilities would be assisted with their planning and operations in the near term if the OEB established a transitional policy for information sharing (including with respect to pilots).

Priority #3 – Exploring policy options (FEIWG Next Steps 4, 5, & 7)

The need to provide due consideration of the costs to distributors of new requirements associated with accommodating DERs emerged in FEIWG discussions.¹⁷ The anticipated scale and scope of DER penetration has material impacts on the cost justification of requirements imposed on distributors and hence distributor-connected rate payers. Furthermore, the UI subgroup suggested consideration of *“the effectiveness of incentives, the costs to customers, intended and unintended consequences of different approaches and regulatory simplicity.”*¹⁸ For these reasons, actions related to the following FEIWG recommended next steps should be informed first by an analysis of the role of rate programs and the magnitude of the financial benefits anticipated from cost-effective DER adoption as addressed in the PWU’s aforementioned recommended Priority #1:

4. Remove DER Disincentives including Cost Recovery Uncertainties. The PWU agrees with the UI subgroup’s recommendation that understanding disincentives and cost recovery uncertainties should be prioritized over developing new incentives.¹⁹

¹⁴ FEIWG Final Report, June 2022, page 12.

¹⁵ FEIWG Final Report, June 2022, page 12.

¹⁶ FEIWG Final Report, June 2022, page 19.

¹⁷ FEIWG Final Report, June 2022, page 13.

¹⁸ FEIWG Final Report, June 2022, page 12

¹⁹ FEIWG Final Report, June 2022, page 12.

5. Establish an Initial DER Incentives Policy including Testing Possible Incentive Structures.

7. Develop Regulatory Reporting Requirements for DERs, including RRR Filings, Applications, and other OEB Reporting.

Developing a BCA Framework - Q2. What is the appropriate scope of a BCA Framework?

The OEB's question regarding the appropriate scope of a BCA framework was identified in the FEIWG and BCA subgroup reports as an area requiring OEB guidance.

To advance an FEI for DER, these reports also note the relevance and importance of completing the work to finalize implementable considerations to be addressed by a BCA.²⁰ While the BCA subgroup has successfully advanced the discussion for developing a BCA for DERs, the work is not sufficiently advanced to assure ratepayers that the process will result in the lowest cost solutions. The subgroup report describes a BCA framework as including its purpose and use, the benefits and costs to be considered in decision making and the standardized methods, assumptions and reporting requirements.²¹ Inadequate consideration of the critical characteristics of Ontario's electricity system in the development of a BCA will lead to higher cost solutions for ratepayers.

There are two key next steps to ultimately defining an appropriate scope for a BCA:

1) Establishing the scope of a BCA Framework may drive governance reform

The BCA subgroup report laid out a spectrum of potential scope options for the BCA framework that range from a distribution system-specific scope, through a scope involving only OEB regulated entities, and ultimately to full energy system and/or societal impacts considerations that would involve implications for the IESO and even potentially the Ministry of Energy policies.²² The report also identified four factors that the OEB should consider when determining an appropriate scope: cost reduction; distributional fairness; distribution rates; and, OEB jurisdiction.

While the PWU supports the BCA subgroup's perspective on maximizing the scope to be considered, the priority outcome should be ensuring the cost-effective adoption of emerging technologies to reliably meet Ontario's emerging electricity needs at the lowest cost to ratepayers.

The scope selection factors identified by FEIWG will have significant impacts on the regulatory practices and governance of Ontario's electricity sector:

- Utility requirements for planning integration and information-sharing (Dx, Tx, IESO, OEB, natural gas);
- Methods for assessing cost effectiveness and the validation of assumptions used;
- Confirming implications of options and their implementation across affected utilities; and,

²⁰ FEIWG BCA Subgroup Report, June 2022, pages 3, 33

²¹ FEIWG BCA Subgroup Report, June 2022, page 3

²² FEIWG BCA Subgroup Report, June 2022, page 2

- Methods for allocating costs to assure distributional fairness to ratepayers and cost recovery for investing utilities, including the balance between taxpayers and ratepayers for policy driven societal benefits.

A Framework for Energy Innovation must provide a transparent approach and process for all stakeholders that effectively integrates the aforementioned factors. Increasing the scope for a BCA framework commensurately increases the need for clarifying electricity sector governance and the roles of the respective parties involved in the process and outcomes. The greater the scope, the greater the need for governance reform that facilitates integrated planning by utilities to achieve the lowest cost solutions.

2) Completing the work to define the BCA considerations impacts the scope selection process.

BCA's must be based on materially accurate costs and benefits for it to achieve the expected results – the lowest cost solutions. The BCA subgroup report clearly identified the need to complete this work. As previously noted in this submission—the work is not yet at a stage to implement or quantitatively inform decisions around an “*appropriate*” scope for the BCA framework. The following actions are required to address these shortcomings:

- Assess the impacts of Ontario's electricity governance, its characteristics and Ontario's rate programs regimes on the foundational assumptions of the BCA, i.e., net benefits potential;
- Detail the methods, standards, and assumptions required to establish and validate the desired outcomes for decision making;
- Develop a decision-making framework for the transparent, comparative analysis of wires/pipes versus non-wires/pipes options enabled by both existing and/or new DERs; and,
- Broaden the scope to consider both utility and non-utility owned options for completeness.

Ontario's experience to date with DERs shows that decisions based on incomplete assumptions and analysis led to higher cost solutions for the province. The UI Subgroup cautioned that unintended consequences should be carefully considered.²³ Therefore, before the BCA framework is finalized, the OEB should ensure that its underlying assumptions and methods are sufficiently comprehensive, robust, and transparent to support the rigorous evidence-base scrutiny of affected stakeholders.

As previously noted, establishing the scope of the BCA is also a critical factor in reaching a consensus on finalizing the above elements. As the scope of the BCA expands, the suite of assumptions and validation protocols becomes more complex and the cost pressures on distributors and ratepayers increase. This makes it imperative that the economic relevance of DER penetration in the system be established and used to inform the quantitative assumptions as referenced earlier in the discussion of the Priority #1 activities, particularly as it relates to Ontario's jurisdiction specific characteristics.

A detailed report is being developed to further inform the implementation considerations of a BCA framework for Ontario and will be provided to the OEB in September.

²³ FEIWG UI Subgroup Report, June 2022, page 14

Developing and implementing utility incentives – Qs 3. To 5. What form of incentives should be developed?

The results of the FEIWG and UI subgroup have advanced the discussion of the issues and challenges especially regarding the latter's statement that *"The subgroup concluded that issues related to appropriate recovery of a utility's costs associated with adopting DER solutions and any disincentives for DER solutions should be addressed,"*²⁴. Their work has provided greater clarity around the definition of the incentive design challenge. This, in turn, has raised more questions about the type and amount of DER that can cost-effectively be accommodated.

There are three, evident factors to consider:

- 1) The narrow mandate given to the UI Subgroup, i.e., focus on non-utility owned DERs;
- 2) An evaluation of the availability and the potential removal of disincentives/barriers to the cost-effective adoption of NWAs/DERs should be a priority; and,
- 3) The need for further incentives, outside of a requirement to conduct BCAs where appropriate, is not established.

- 1) The narrow mandate given to the UI Subgroup, i.e., focus on non-utility owned DERs.

The FEIWG reports show that assessing the cost-effective integration of DERs, is by its very nature, a much bigger question than determining the availability of third-party-owned DER solutions. Other options include: utility-owned DERs; and, the potential for integrated cross-utility collaborative investments e.g., between distributors, transmitters and the IESO and/or with natural gas utilities. The potential implications of these broader solution options also suggest a review of existing incentive models is required. The UI Subgroup report asserts that this broader context is necessary for fully informing an appropriate approach to DER adoption.²⁵ The next steps assessment should be made in this broader context.

- 2) An evaluation of the availability and the potential removal of disincentives/barriers to the cost-effective adoption of NWAs/DERs should be a priority.

It is critical that a distributor's costs of accommodating or integrating DERs are identified by a BCA and the mechanisms for allowable cost recovery are determined. This was addressed by the BCA subgroup report, which identified a category of distribution system costs and emphasized the need for distributional fairness of the cost recovery. The next steps in the development of the BCA framework should advance the understanding of the nature of the costs and how they will be recovered. The UI Subgroup also identified potential barriers to DER adoption that exist in the Distribution System Code that should be explored.

- 3) The need for further incentives, outside of a requirement to conduct BCAs where appropriate, is not established.

The general theme of the UI subgroup discussion on incentives is how the accommodation of DERs could represent a financial benefit to utilities. However, it has not yet been established that DER adoption represents a material financial impact to utilities. It is conceivable that such incentives

²⁴ FEIWG Final Report, June 2022, page 12.

²⁵ FEIWG UI Subgroup Report, June 2022, page 5.

may not be important. The PWU's aforementioned recommended Priority #1 actions support the need for greater clarity regarding the importance of these incentives.

Furthermore, a regulatory option identified by the UI subgroup report is to impose a requirement on utilities to conduct BCAs for NWAs, as appropriate.²⁶ If the BCA demonstrates a clear benefit for ratepayers from a NWA, the distributor should be required to choose that option. This requires a transparent, robust and evidence-based BCA framework and an integrated system planning approach that ensures visibility into the requirements on the distribution system. The presence of the BCA framework may, in and of itself, address many of the challenges identified in the UI subgroup report. Where utility-owned DERs are optimal, the outcomes of a BCA would reflect the regulated return of capital assets.

Ensuring distribution planning is informed by DER adoption – Q6. How should distributors consider DER adoption?

The DERI subgroup report provided context for anticipated adoption of DER in Ontario and identified that changes to the existing regulatory and governance framework may be required in four areas:²⁷

- Collaborative planning across all levels to establish requirements and solutions;
- The provision of information for both planning and operating purposes;
- A method for ascertaining when DERs are a cost-effective alternative for meeting system needs;
- Mechanisms for the electricity sector to recover the costs of DER solutions.

The DERI subgroup report identifies *“the need for greater coordination between provincial, regional, and local electricity system planning”*²⁸ and emphasizes a need for information to support planning for DER adoption and their operations. The DERI report also states that: *“The OEB should consider options for facilitating the exchange of information between electricity and natural gas distributors necessary for evaluating solutions that benefit both systems.”*²⁹ This recommendation underscores the importance of the FEIWG Priority #1 next step for the OEB – to actively engage in the broader energy sector policy development activities and examine the regulatory and governance framework for electricity planning.

The DERI subgroup report also pointed to several possible sources for information on DER adoption, although none provide definitive and/or comprehensive data that would help inform Ontario's energy planning needs. The DERI report stated: *“Ensuring distributors are considering available information about DER adoption, identifying information gaps, and supporting a shared understanding of the probable future state should be a near-term priority for the OEB.”*³⁰ This underscores the importance of the PWU's earlier recommendation regarding the value of DERS in meeting local electricity needs and benefiting Ontario's electricity sector.

²⁶ FEIWG UI Subgroup Report, June 2022, Page 24.

²⁷ FEIWG DERI Subgroup Report, June 2022, pages 4, 5.

²⁸ FEIWG DERI Subgroup Report, June 2022, page 7.

²⁹ FEIWG DERI Subgroup Report, June 2022, page 14.

³⁰ FEIWG DERI Subgroup Report, June 2022, page 10.

Closing

The PWU appreciates the efforts of the OEB in support of the activities and reports of the FEIWG activities. While substantial progress has been made with respect to the framework for DER adoption and integration, much work remains to develop a policy framework that ensures the cost-effective adoption of emerging DER technologies and achieves the lowest cost solutions while reliably meeting Ontario's emerging electricity system needs.