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Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Marconi,

RE: EB-2021-0118 – Report of the Framework for Energy Innovation Working Group to the Ontario Energy Board – Comments of London Property Management Association

Introduction

The Framework for Energy Innovation Working Group (“FEIWG”) delivered its Report to the Ontario Energy Board (“Board”) on June 30, 2022. The FEIWG was established by the Board to advise it on the steps that it could take to facilitate the cost-effective use and integration of distributed energy resources (“DERs”). In particular, the Board confirmed the priority workstreams for the FEIWG to be to 1) investigate and support utilities’ use of DERs they do not own as alternatives to traditional solutions to meet distribution needs; and 2) ensure that utilities’ planning is appropriately informed by DER penetration and forecasts.

In the July 6, 2022 letter to electricity and natural gas distributors, electricity transmitters and all other interested parties, the Board invited interested stakeholders to submit written comments on the Report. These are the comments of the London Property Management Association (“LPMA”). The comments have been provided based on the questions provided by the Board in the July 6, 2022 letter.

The comments that follow reflect LPMA’s interest in ensuring that any framework for energy innovation that results from the OEB’s initiatives should be focused on ensuring that the adoption of emerging DER technologies is cost-effective, providing ratepayers with the lowest cost solutions that result in continued, or improved, reliability of service. LPMA members also have an interest in ensuring that a robust and competitive market for non-utility DER service providers is established in Ontario.

General

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

The Report identified seven next steps, but did not prioritize them. LPMA agrees with the Report that most of the issues can be dealt with in parallel to one another. LPMA suggests that the issues identified in the Report should be grouped into three main areas and prioritized as follows:

Priority #1 – Engagement, Information & Transparency (FEIWG Next Steps 2 & 3)

It is often said that the energy sector is in the midst of a potentially significant transition that could have far reaching implications for everyone. LPMA does not believe the word “transition” is the appropriate descriptor, as this implies a process or period of changing from one state or condition to another. There may not be an end state, but rather a continuing evolution of the energy sector.

The drivers of this evolution range from government policy, to environmental concerns, reliability issues, costs to ratepayers and technology advancements. Who would have envisioned that people would have been talking about plugging their vehicles into their house, and plugging their house into their vehicle, or producing all of some of their own energy requirements themselves twenty years ago? For the energy sector that has significant assets with physical lives of forty years or more, this highlights the potential difference between the physical life of an asset with the useful life of an asset.

Next Step #2 in the Report discusses the changes being made to the energy sector that are being discussed by the Board, the IESO and government ministries and agencies and non-governmental organizations. It further talks about the engagement and coordination of these parties, and with regulated utilities to ensure that all parties have “regular and consistent information on the evolution of the sector and policy changes being proposed or implemented by the various actors”.

LPMA believes this needs to be expanded to include the most importation people in the energy sector, ratepayers. This group seems to have been left out of the engagement and sharing of information in many cases. This is partly due to the lack of transparency to the ordinary customer, whether they be residential, small commercial or small industrial. This, in turn, is due to the lack of information from credible third-party competitive service providers. Why are parties talking about the electrification of natural gas space heating and water heating to reduce greenhouse gas emissions while at the same time the government is promoting the expansion of natural gas service into areas where natural gas is not available?

The solution to this problem is education, which begins with effective engagement of the customers, which without, regulated utilities would not need to exist. Effective engagement means ensuring that customers have the information they need to effectively determine their energy future. The energy sector often forgets that customers, not the Board, not regulated utilities and not government drives the energy sector in one direction or another.

This ties in to the Next Step #3 of the Report. Information on benefits and costs must be included in any policy decisions that ultimately impact ratepayers. LPMA agrees that distributors should benefit from a formal Board-developed template that implements the appropriate benefit cost analysis that is consistent with whatever framework policy is ultimately determined.

LPMA further suggests that the Board should ensure that the benefit cost analysis does not stop at the distributor level, but rather can be applied to the rate class level. A positive net benefit cost outcome for a distributor may not result in net positive benefits for all rate classes; it may result in more costs imposed on one rate class while the benefits accrue mainly to another rate class.

Priority #2 – Effective & Timely Planning (FEIWG Next Steps 1 & 6)

All parties require information in order to be able to effectively participate in the evolving energy sector. Next Step #6 is a required step that would establish at least an initial policy for the sharing of information between regulated utilities, DER providers and customers. Rather than stipulating the types of information to be shared, LPMA submits that the Board may want to approach this issue from the other direction. In particular, the Board should determine what types of information should not be shared among all parties, with all other information to be shared, by default.

This free flow of information between all parties is required by all parties to effectively and efficiently participate in the evolving energy sector. With respect to distributors, they need to know what DER providers can provide and where and when, and they need to know what customers want and are doing before they can appropriately plan their systems. This ties in with Next Step #1. LPMA agrees with the Report that distributors would benefit from guidance on what is expected from them in the short term. This would in term benefit both DER providers and customers. Specific guidance related to DERs should be provided by the Board for the development of the next Distribution System Plans.

Priority #3 – Regulatory & Policy Options (FEIWG Next Steps 4, 5 & 7)

LPMA has grouped Next Steps 4, 5 & 7 together as they all relate to regulatory instruments that help ensure the adoption of emerging DER technologies is cost-effective, providing ratepayers with the lowest cost solutions that result in continued, or improved, reliability of service. The adoption of DER technologies must provide a benefit to the customers of a distributor and should not be adopted simply because it is the new shiny toy to be played with.

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?***

LPMA believes that the Board should prioritize the establishment of a narrow set of benefits and costs to be considered with respect to the deployment of DERs as alternatives to traditional solutions to meet the electricity needs of the customers of distribution systems. This will be a tool that individual distributors can use to evaluate the net benefits and costs of a DER project relative to the standard option of building more long-lived assets. This should be done as soon as possible by the Board. LPMA notes that the Board has a long history of evaluating natural gas projects through both E.B.O. 188 and E.B.O. 134 along with the Stage 1 discounted cash flow models that have been developed. This expertise should be used to establish the narrow scope of a BCA framework.

The Board also has a long history with the evaluation of a broader set of benefits and costs in the natural gas industry related to distribution and transmission line expansions. Following the development of a narrow set of benefits and costs that will enable individual utilities to start looking at DER projects instead of or in conjunction with the construction of standard assets, the Board should look at the broader set of benefits and costs that may be associated with DERs. This could include upstream benefits and costs on the transmission system, the impact on generation, and the potential for projects to provide benefits to more than just one distributor. These second stage benefits and costs would be useful when the more narrow benefits and costs closely offset one another, but result in more widespread benefits.

Developing and Implementing Utility Incentives

3. How might the OEB remove disincentives for utilities to adopt DER solutions?

First, and foremost, the disincentives for utilities to adopt DER solutions must be clearly identified and quantified. Similarly, any uncertainties related to cost recovery must be clearly identified. Only when identified, can the Board and other parties determine how these disincentives can and should be dealt with.

At a general level, any costs that are associated with the operation, maintenance and administration of DER related activities should be expensed in the normal course and included in the OM&A requirements included in the revenue requirement of a utility at rebasing. Any such costs incurred prior to rebasing should be eligible for inclusion in a new deferral account, which would be reviewed by the Board in a future hearing for disposition to customers subject to the normal requirements of a prudence and materiality review.

Any utility capital costs incurred to incorporate DER solutions (which would be owned by third parties) into the distribution system, would be treated the same way as other utility related capital expenditures and included in rate base. The only difference is that the Board may want to investigate whether depreciation rates on those assets should be based on the life of the asset or on the length of the contract with the DER solution provider to ensure there are no stranded assets if the DER solution ceases to exist at the end of a contract term.

It is the view of LPMA that removing disincentives for utilities to adopt DER solutions should be prioritized over providing incentives to distributors.

4. Is providing incentives to distributors to facilitate adoption of DER solutions (i.e., non-wires alternatives) appropriate? Under what circumstances?

LPMA does not believe that the provision of incentives to distributors to facilitate adoption of DER solutions is appropriate. Regulated electricity distributors are issued a licence to serve their customers. The Board expects that utilities will provide an acceptable level of reliability to their customers and that the provision of electrical service will be cost-effective. Customers expect their monopoly service providers to provide an acceptable level of reliability in their service at an acceptable level of costs.

Incentives to distributors are ultimately paid for by ratepayers. So, what do ratepayers get in return for giving incentives (i.e. added profits) to distributors? The answer is nothing. The distributor will facilitate the adoption of non-wires alternatives when those

alternatives are determined to be the best solution. In other words, distributors would be rewarded for doing what they are supposed to do.

LPMA believes that regulated utilities should be obligated to implement only the most cost-effective solutions to meet customer needs, which include reliability and low cost. Indeed, this is a fundamental obligation of a regulated monopoly and its regulator.

In a perfect world, these utilities would not need to be incented to do what they are obligated to do. LPMA believes that most of the utilities in Ontario would fulfill their obligations to their customers without expecting any incentive to do their job. They do not require incentives to meet their other utility obligations.

5. If incentives are appropriate, how should the OEB select/develop the form of incentive that should be available?

The major incentive available to a distributor to facilitate the adoption of DER solutions, or non-wire alternatives, is that they continue to keep their licence to operate as a distributor. This is similar to many other requirements that are imposed on distributors in Ontario and for which no incentives are provided. Distributors should be required, through the implementation of a licence condition, to maximize DER use in their service territory if it is a lower cost alternative than the addition of traditional assets and does not reduce reliability.

The Report notes that the Board could require distributors to maximize DER use within their service territory through the approval of their DSP and capital spending by making that approval conditional on successfully meeting that requirement.

LPMA notes that while the Board requires distributors to file DSPs, it does not ultimately approve them. Similarly, with respect to capital spending, the Board typically approves an amount of capital expenditures or capital additions to rate base, but does not approve specific projects or their specific costs.

Any incentive to distributors should not add to the cost being paid by ratepayers.

a. Are there options the Incentive Subgroup did not identify that should be considered?

One way to incent a distributor to do the right thing, is to make sure they know they are at risk for capital additions to rate base if they do not provide sufficient evidence and rationale for not using a DER or failing to fully investigate the potential of a non-wires solution in place of the standard addition of capital to rate base.

This would be accomplished through an after-the-fact prudence review of capital expenditures at a rebasing application. The cost of a project, or a portion thereof, could be permanently removed from rate base if a distributor fails to provide adequate evidence

and rationale of why a DER solution was not used in place of the capital expenditure or why a non-wires alternative was not investigated in a timely manner. This would eliminate the revenue requirement associated with the amount removed from rate base.

This would add a significant level of regulatory complexity to a rate hearing, but in the absence of a licence condition that requires this approach by a distributor, it would be necessary to ensure that customers are receiving an appropriate value of service for their money.

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)?

With respect to ongoing industry guidance, LPMA believes that the Board should establish an ongoing working group that would consist of distributors DER providers, environmental groups and ratepayer groups that would meet on a regular basis to share information and discuss issue that may arise from time to time. This would include learning from one another about the use of various DER technologies and having DER providers having a forum to introduce new or updated solutions to the distributors. This group should also facilitate the elimination of duplication across distributors, resulting in reduced costs to be recovered from ratepayers.

LPMA also believes that the Board should direct the distributors to identify a senior executive or manager that is responsible for ensuring that DERs are appropriately and adequately considered when planning and operating their system. This individual would be responsible for ensuring the distribution system plan incorporates DER solutions where feasible and cost effective, and for any new reporting requirements that may result. They should also be the point person for the distributor in the sharing of information with other distributors and with DER providers, environmental groups, ratepayer groups and the Board.

Yours very truly,

Randy Aiken
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