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**BY EMAIL AND RESS**

September 2, 2022

Ms. Nancy Marconi  
Registrar  
Ontario Energy Board  
Suite 2700, 2300 Yonge Street  
P.O. Box 2319  
Toronto, ON M4P 1E4

Dear Ms. Marconi,

**EB-2022-0118 – Framework for Energy Innovation: Distributed Resources and Utility Incentives**

On July 7, 2022, the Ontario Energy Board (“OEB”) released the final report of its Framework for Energy Innovation (FEI) working group, along with six questions, for comment by September 2<sup>nd</sup>.

Hydro One is very supportive of this initiative and is pleased to provide its attached written comments.

Hydro One looks forward to participating in this important proceeding. Please do not hesitate to contact me directly or Mr. Stephen Vetsis, Director – Pricing and Regulatory Policy, at [Stephen.Vetsis@hydroone.com](mailto:Stephen.Vetsis@hydroone.com) if you have any questions.

Sincerely,



Frank D'Andrea

## **OEB's Framework for Energy Innovation: Distributed Resources and Utility Incentives**

### **Hydro One's Comments**

On July 7, 2022, the Ontario Energy Board ("OEB") released the final report of its Framework for Energy Innovation (FEI) working group, along with six questions, for comment by September 2<sup>nd</sup>. Hydro One is pleased to provide its general comments and responses to the OEB's questions below.

#### **General Comments**

Hydro One is very supportive of the OEB's ongoing work to guide the sector during the energy transition, including through the FEI consultation. In light of the upcoming IESO-identified supply gaps as well as increasing customer demand for DERs, there is a need for greater urgency by the OEB on this file.

Hydro One encourages the OEB to continue to keep a customer focus while working through the next steps and to continue to leverage distributors to help provide this perspective. In addition, in the next phase of work, the OEB needs to engage on the broader issues impacting customers and utilities, regardless of the ownership structures in place.

The Report developed by the FEI working group provides a thorough summary of considerations on an approach to a benefit-cost analysis, utility incentives, and integration of DERs. Hydro One believes that the Report identifies the right next steps that will enable the OEB to make progress on this important file.

In terms of the priority of the next steps, Hydro One encourages the OEB to first provide guidance on the role of the utility, as this is foundational. Once this has been determined, the scope of the Benefit Cost Analysis (BCA) framework can be identified by the OEB in coordination with the sector. Clarifying the role of the utility will also help identify any disincentives or if any incentives would be required.

Hydro One is supportive of the BCA framework considering benefits and costs beyond the distributor's service territory and recommends a two-phased approach to developing the framework. The initial phase should focus on identifying and quantifying energy system benefits and costs that are within the OEB's mandate. In the second phase, the OEB should work with the government, IESO, and the sector to determine how to appropriately include societal benefits and costs. This phased approach will allow the initial BCA to be launched quickly to provide needed guidance, while allowing sufficient time to develop an appropriate approach to considering societal benefits and costs.

As the OEB develops the BCA framework it will need to consider what sector objectives it is aiming to achieve (e.g., lowest overall system cost, maximize customer DER connections, flexibility of supply, maximize renewables, etc.). The energy transition, including electrification to achieve net zero targets, will require significant investment in the electricity system. The OEB will need to consider how it can continue to deliver on its mandate of ensuring fair and reasonable rates while ensuring the electricity sector is prudently and proactively investing to ensure that the electricity system is ready for this transition.

## **Responses to OEB's Questions**

### **General**

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

Hydro One sees the priority next steps as:

##### *1. Providing further guidance on the role of the distributors and expectations of them*

Distributors need clarity on what role they have in the energy transition, including their role in proactively enabling DER connection opportunities. As noted above, this is a foundational area of work that will have implications for the rest of the work on this file.

##### *2. Establish an initial framework and template for Benefit Cost Analysis (BCA)*

The development of a BCA framework will help guide distributor decisions by removing uncertainty on what lens to use to consider DERs in planning decisions, identifying how to appropriately allocate costs and benefits beyond the distribution system, and by clarifying the ability to recover infrastructure costs from the rate base.

##### *3. Remove DER disincentives including cost recovery uncertainties*

As mentioned above, clarifying the utility's role and how benefits and costs should be considered will better enable the distributors and OEB to identify disincentives. Once the role of the distributor is clarified, the OEB may also need to consider the utility's remuneration structure, including reviewing the need to consider the treatment of third-party services vs traditional capital alternatives.

Hydro One is also very supportive of the second next step identified in the Report, '*actively engage in the broader energy sector policy development activities*' but sees this as part of the OEB's ongoing responsibility rather than a distinct next step.

Work to identify and test possible incentive structures<sup>1</sup> would most appropriately be done once the disincentives have been removed and utility roles have been more clearly defined. Without the foundational work outlined above, it will be difficult for the industry to identify the 'problem' that incentives would be intended to solve.

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<sup>1</sup> Recommendation 5 in the Report was to "Establish an initial DER incentives policy including testing incentive structures".

Similarly, work to establish policies for information sharing and reporting requirements<sup>2</sup> should be considered once the priority steps identified above have been completed. In implementing the OEB's 2021 CDM Guidelines and the outcomes of the work on the priority work streams identified above, distributors will need flexibility to test out different approaches to receiving and sharing information with customers and DER providers. Once some experience has been gained the OEB could work with distributors and the industry to identify best practices.

## Developing a BCA Framework

2. What is the appropriate scope of a Benefit Cost Analysis (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?

To maximize the value of DERs to the grid, Hydro One believes the appropriate scope for a BCA framework should consider benefits and costs beyond the distributor's purview. The BCA should ultimately consider societal benefits and costs so that decisions made by LDCs are better aligned with the societal goals associated with the energy transition.

However, as some societal benefits are outside of the OEB's mandate, the initial BCA should consider benefits and costs within the energy sector so the initial framework can be delivered more quickly. The OEB should work with distributors, IESO, and industry to develop this initial BCA and aim to release it as soon as possible so LDCs and the OEB can start considering a broader scope of costs and benefits and make investments more aligned with the public good.

Following the release of the initial BCA framework, the OEB should work with the government and the industry to create a second iteration of the framework that appropriately considers societal benefits and costs, which are outside the OEB's mandate. As part of this work, the OEB will need to consider how incremental costs to achieve societal benefits should be allocated and recovered.

This two-staged approach will enable the OEB to deliver the initial BCA Framework more quickly, allow the sector time to mature, and allow time to develop appropriate mechanisms to integrate a societal perspective into utility decision-making.

In developing the BCA, the OEB will also need to consider and, where applicable, create appropriate cost recovery mechanisms so that the principle of costs following benefits can continue to apply. In addition, the OEB will need to provide distributors with standard assumptions for benefits and costs for broader energy systems and societal benefits.

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<sup>2</sup> Recommendation 6 of the Report was to "Establish an initial information sharing policy for LDCs, DER providers, and customers to support distribution planning and operations"

The BCA framework should treat broader system benefits and costs symmetrically (e.g., both benefits and costs are incorporated) to ensure the analysis is fully informed. Further, the framework should ensure that alternatives are considered on a lifecycle basis (e.g., DERs often had shorter lifespans than wires alternatives) to ensure that customers are getting the most value from investments.

## 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) 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?

As noted above in the responses above, Hydro One recommends the OEB first provide guidance on the role of utilities and develop the initial BCA Framework before considering how to remove disincentives and considering the need for incentives. The appropriate incentives will be informed by the desired objectives which ultimately will tie to the utility's role and responsibilities.

## 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)?

The OEB's 2021 CDM Guidelines, released in December 2021 introduced a new requirement for distributors to demonstrate how they consider NWA in their distribution system plans. In setting expectations for utilities, the OEB should be mindful of the current state of the sector. Utilities have significant experience connecting DERs however, the sector is still gaining experience implementing DERs to address system needs. Hydro One encourages the OEB to allow flexibility in the expectations for distributors to allow for the development of best practices before considering adding detailed requirements.

The OEB should also continue to consider and develop DER use cases to clarify the value that DERs can provide. When considered on a lifecycle basis for long-term system needs, DERs are often more expensive than a wires alternative due to the long life of wires assets compared to most DERs. However, DERs can potentially provide significant value for shorter-term system needs, for example when used for temporary relief of system constraints or to provide flexibility before committing to a larger-scale project. During the energy transition, distributors will need access to all tools, including DERs as well as traditional wires solutions, to plan and operate the system to meet customer electrification needs.