



BY EMAIL AND WEB POSTING

October 10, 2023

**To: All rate-regulated electricity distributors
All participants in Framework for Energy Innovation consultation
(EB-2021-0118)**

**Re: Capital Funding Requests for DER Integration Investments Between
Rebasing Applications for Distributors on Custom IR**

Summary

In response to distributor questions, the OEB is issuing this letter as a clarification of the OEB's conclusions in the January 30, 2023 report [Framework for Energy Innovation: Setting a Path Forward for DER Integration](#) (FEI report). This letter describes the OEB's intended approach to any capital funding requests related to DER integration between rebasing applications for distributors on the Custom Incentive Rate-setting Method (Custom IR).

The OEB will consider applications from utilities on Custom IR requesting cost recovery of capital investments for DER integration between rebasing applications. However, given the nature of the Custom IR method, such applications must be related to urgent need(s) and the distributor would have to demonstrate that they could not reprioritize capital plans to accommodate the DER investment. The OEB would also take into account the distributor's specific circumstances and the rate-setting framework established by the OEB in its most recent rate rebasing proceeding.

Policy Direction in FEI Report

The FEI report establishes an expectation for “distributors to plan, design, and operate their systems in a way that accounts for the anticipated impacts of DERs” and to “ensure that limitations of the distribution system do not pose an undue barrier to customers exercising their choice to adopt DERs.”¹ However, the report also states the OEB's expectation that “expenditures related to DER activities are integrated and

¹ P.14

balanced against all other distributor spending priorities, to support optimized outcomes for customers”.²

The FEI report indicates that “the Incremental Capital Module is available to address qualifying and material capital costs incurred during a rate term, which can be used to facilitate any urgent DER-related investments that may be required.”³ However, under the OEB’s [Renewed Regulatory Framework for Electricity Distributors](#), an Incremental Capital Module is not available to distributors on Custom IR.

Requirements of Custom IR

An important principle of the Custom IR rate-setting method, as described in the Renewed Regulatory Framework, is that distributors on Custom IR will operate within their approved multi-year rates and remain committed to the Custom IR method for the duration of the approved term. Rates are set based on robust evidence of cost and revenue forecasts over the multi-year term, including detailed infrastructure investment plans.

An exception permitting funding requests between rebasing applications exists in the OEB’s [Conservation and Demand Management \(CDM\) Guidelines](#). The CDM Guidelines indicate that distributors are encouraged to make funding requests for CDM activities as part of rebasing applications, but that the OEB will consider applications for CDM activities outside of rebasing applications, if necessary, including for distributors on Custom IR.⁴ This flexibility is intended to encourage greater consideration of the use of CDM to meet distribution system needs.

Criteria for Assessing Funding Requests Related to DER Integration for Distributors on Custom IR

The OEB makes a distinction between:

- (1) **DER Use:** investments where a distributor prudently seeks to use a DER as a non-wires alternative to address a system need that would otherwise have to be met through traditional infrastructure; and
- (2) **DER Integration:** investments that are made for the purpose of enabling DER adoption by consumers for their own purposes.

The OEB has expressed policy support for DER Use investments in both the CDM Guidelines and the FEI report. Over the longer term, these investments are expected to reduce distribution costs to customers. The types of CDM activities eligible for funding under the CDM Guidelines encompass the use of DERs by distributors as non-wires alternatives, and any funding request of this nature will be considered under the criteria established in the CDM Guidelines.

² P.27

³ P.28

⁴ Section 3.3

DER Integration investments are supported by the FEI report but are not as likely to reduce distribution costs or benefit customers that do not adopt DERs. As such these investments must be balanced against all other potential distribution system investments in order to deliver optimal outcomes to customers. A distributor will need to make a persuasive case for any immediate incremental funding for such investments instead of either reprioritizing investment plans or waiting until its next rebasing application.

Utilities making a funding request related to DER integration between rebasing applications will need to demonstrate incrementality of costs relative to what is built into existing rates, materiality, need, and prudence, as well as discuss why the proposed investment was not part of the most recent application and the benefits and risks of waiting until the next rebasing application. The OEB will also consider the specific circumstances of a distributor's previous rebasing application, such as DER-related proposals and submissions in that application, how these were considered in any settlement agreement, and in the OEB's decision.

Any questions relating to this letter should be directed to the OEB's Industry Relations Enquiry e-mail at IndustryRelations@oeb.ca.

Yours truly,

Nancy Marconi
Registrar