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VIA RESS

Ms. Nancy Marconi
Registrar
ONTARIO ENERGY BOARD
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, Ontario
M4P 1E4

Dear Ms. Marconi:

Re: EB-2023-0125 – Benefit-Cost Analysis Framework for Addressing Electricity System Needs.

Workplan Comments of Association of Major Power Consumers in Ontario (AMPCO) and Industrial Gas Users Association (IGUA).

We represent AMPCO and IGUA in this matter, and write to provide comment on the Guidehouse *BCA Handbook – Project Plan* materials posted.

Scope of Work

Overall AMPCO and IGUA support the approach to a BCA framework for evaluating distribution system alternative investments reflected in the project plan materials. The narrative consistently focuses on the distribution system costs and benefits as the primary evaluative criteria, which AMPCO and IGUA have supported in the past and continue to view as appropriate from a distribution customer perspective.

There is some discussion of a broader *"energy system test"* (EST), which is expected to be of greater focus in a subsequent phase of development of a BCA framework. Such a broader test is also consistent with AMPCO and IGUA positions to date, in that it recognizes as appropriate consideration of energy system benefits (as distinct from broader societal benefits) beyond the implementing distributor. The Framework for Energy Innovation (FEI) BCA Sub-group Report contemplates future work on allocation of costs of non-wires/non-pipes alternatives to those within the energy system under the regulatory purview of the OEB who would benefit from implementation of such alternatives. Further discussion of the development and use of an EST to be pursued in the next phase of this project should include consideration of how the benefits of non-traditional energy services solutions

would accrue to customers beyond those of the implementing distributor and how associated costs could be allocated and recovered.

For now, AMPCO and IGUA endorse the primary focus of the Guidehouse work on a distribution system focussed BCA.

Discount Rate

AMPCO and IGUA do have a concern about the apparent assumption by Guidehouse for use in the BCA calculations of a *"social discount rate"*, which Guidehouse pegs at 4%. No rationale is provided in the materials for why use of a social discount rate is appropriate, other than reference to the IESO's use of a social discount rate in its Integrated Regional Resource Planning (IRRP) framework.

In our understanding, a social discount rate is generally said (as in the case of the IESO's IRRP economic analysis guidance[1]) to *"reflect[] an estimate of the time value of infrastructure investments **on a broad societal level**"* [our emphasis]. Such a discount rate is generally lower than, for example, a utility specific (cost of capital based) discount rate, leading to higher net present value of benefits calculated for the investment being evaluated.

The discount rate that provides a more accurate reflection of the cost to utility ratepayers of a utility investment would be the utility specific weighted average cost of capital (WACC) derived discount rate. The utility specific WACC reflects the actual cost to customers of utility financed infrastructure investments as actually reflected in rates. Utility WACC is generally higher than a social discount rate, resulting in a lower net present value of net customer benefits forecast from a utility investment.

If the same discount rate is used to evaluate both the conventional (default) utility investment and the non-wires/non-pipe alternative(s) under consideration, it may well be that one would still get a view of the relative cost effectiveness of the option(s) being considered. However, the magnitude of the benefit of one option over the other might be relatively higher using a social discount rate than would be the case using a WACC based discount rate.

In the end, it is not clear to us whether use of a social discount rate biases outcomes in favour of non-conventional solutions, but it is curious that a discount rate generally intended to *"reflect[] an estimate of the time value of infrastructure investments **on a broad societal level**"* is proposed by Guidehouse for use in a test that is intended to be expressly focussed on distribution system specific costs and benefits.

It would be helpful if Guidehouse could elaborate in the next set of materials on the basis for its proposed discount rate, and the impact of that choice as compared to using a utility specific WACC derived discount rate.

[1] *Integrating Regional Resource Plans: Guide to Assessing Non-Wires Alternatives*, IESO, May 26, 2023, page 24, second paragraph.

Conclusion

AMPCO and IGUA appreciate the opportunity to participate in this consultation, and look forward to the review and consideration of further material in support of development of a benefit-cost analysis framework for addressing electricity system needs in due course.

Yours truly,

Ian A. Mondrow

c: Colin Anderson, AMPCO
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