Elson
Advocacy

January 26, 2024

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

Dear Ms. Marconi,

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

I am writing on behalf of Environmental Defence to provide comments on the draft benefit-cost analysis ("BCA") framework.

I have attached a review of the draft BCA by Chris Neme, one of the main co-authors of the National Standard Practice Manual ("NSPM"). He concludes that the "draft BCA framework for NWSs is inconsistent with the NSPM and violates key economic principles." He describes this as "a fundamental concern with huge implications for the number of NWS projects that will appear to be cost-effective, for the range of DERs that might be deployed as part of NWSs, for impacts on the environment, and – perhaps most importantly – for costs to ratepayers." Environmental Defence asks the OEB to carefully consider Mr. Neme's comments and implement his proposed recommendations.

In addition to Mr. Neme's comments, we also submit that the draft BCA is inconsistent with direction from the OEB in *Framework for Energy Innovation: Setting a Path Forward for DER Integration* (the "FEI Report").[1]. The direction from the OEB in the FEI Report requires that the savings that accrue to a distributor's customers be included in the primary BCA calculations and test. This is clear from the executive summary and the detailed section the BCA framework. The key wording in the executive summary reads as follows (with emphasis added):

> "The OEB will adopt a BCA Framework that identifies the full energy system benefits and costs of DER solutions and allows different categories of costs and benefits to be considered separately. **The costs and benefits for the implementing distributor <u>and its customers</u> will generally be the primary consideration for making decisions about cost recovery through distribution rates**."[2]

[1] OEB, *Framework for Energy Innovation: Setting a Path Forward for DER Integration*, January 2023 (link).
[2] *Ibid*. p. 4.

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This wording would include the savings that accrue to customers from avoided electricity consumption. This is clear for three reasons:

- The wording refers to customer benefits without restricting those benefits to avoided distribution costs.
- The wording refers to customer benefits in the context of the previous sentence referring to energy system benefits. In this context, the customer benefits are the energy system benefits accruing to the distributor's customers, which would include avoided energy costs.
- The wording differentiates between distributor benefits and customer benefits. Presumably the distributor benefits are the avoided distribution costs (i.e. avoided spending on wires) and the customer benefits are the avoided costs that accrue to the customer (e.g. avoided commodity costs).

We assume that Guidehouse has excluded customer avoided energy cost savings because the OEB referred to the "distribution service test" in the FEI Report. However, when read as a whole, this reference in the FEI Report does not amount to a direction to exclude avoided energy cost savings in the primary test. They key wording from section 5.4 of the FEI Report is as follows (with emphasis added):

> **The costs and benefits for <u>the implementing distributor's customers</u> will be the primary consideration** for assessing rate funding of a DER solution.
> …
> For the purpose of electricity distribution rate-setting, the OEB will be employing a multi-test approach, as described by the BCA Subgroup.
>
> The OEB will develop and require use of a test that assesses the distribution costs and benefits, <u>similar to</u> the Distribution Service Test described in the BCA Subgroup's report. **In most cases, the costs and benefits for <u>the implementing distributor's customers</u> will be the primary consideration** for approving rate funding of a DER solution.
>
> **However, the OEB's intent is to encourage the development of solutions that are in the best interests of both a distributor's customers and Ontario's energy customers more broadly.** For this reason, the OEB will also develop guidance on an additional test (part of the multi-test approach) that will consider appropriate energy system impacts. The results of the broader test can be used to identify an optimal solution for Ontario's energy consumers as a whole and inform appropriate levels of cost sharing between parties.

This wording would require the savings that accrue to customers from avoided electricity consumption to be included in the primary test for the following reasons (despite the reference to the distribution service test described in the BCA subgroup report):

- There is reference to a test <u>similar to</u> the distribution service test described in the BCA subgroup report. That does not require the primary test to be identical to that test nor require exclusion of avoided energy savings that accrue to a distributor's customer.

- The single brief reference to the distribution service test is made in the context of multiple unqualified statements that the primary test will account for customer benefits.

- The subsequent wording differentiates between the primary test and the energy system test based on who the benefits accrue to – namely "a distributor's customers and Ontario's energy customers more broadly."[3] It is clear that the differentiation between the two tests is *whose* benefits and costs are considered, not the type of benefits and costs to be consider (i.e. avoided distribution infrastructure versus avoided electricity consumption).

- If the OEB had intended to exclude key benefits accruing to customers in the primary test it would have said so and explained why – not done so with a vague reference to the BCA Subgroup report. Nor would it have included unqualified language in multiple places in the FEI Report calling for the inclusion of distributor customer benefits and costs.

The only possible interpretation of the OEB's directions in the FEI Report, when viewed as an entirety, is that the primary test should account for all savings that accrue to a distributor's customers, including avoided energy costs.

Conclusion

The BCA framework is incredibly important because distributed energy resources present a major opportunity to lower energy bills. The exclusion of energy benefits in the primary test would undermine the whole initiative and turn it into a step backward from the ad hoc approach that is currently taken by distributors. We request that costs and benefits accruing to a distributor's customers be accounted for so that the BCA framework will be consistent with OEB directions and to ensure that DERs will be adopted whenever they will provide overall bill reductions to a distributor's customers, either by revising the content of the primary test or by putting the EST and DST on equal footing.

Yours truly,

Kent Elson

[3] *Ibid*. p. 21.