



**POWER
WORKERS'
UNION**

February 1, 2024

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

Via OEB RESS, email to registrar@oeb.ca;

Re: EB-2023-0125 Draft Benefit-Cost Analysis (BCA) Framework

The Power Workers' Union ("PWU") represents a large portion of the employees working in Ontario's electricity industry. Attached please find a list of PWU employers.

The PWU appreciates the opportunity to provide input on the OEB's Draft BCA Framework. The PWU commends the OEB for its phased approach and the level playing field of assessing impacts to rate payers, based on transparent robust data and reputable sources. The PWU is a strong supporter and advocate for the prudent and rational reform of Ontario's electricity sector and recognizes the importance of low-cost energy to the competitiveness of Ontario's economic sectors.

The PWU believes that OEB policy and initiatives should deliver energy at the lowest reasonable cost while stimulating job creation and growing the province's gross domestic product (GDP). We are respectfully submitting our detailed observations and recommendations.

We hope you will find the PWU's comments useful.

Sincerely,

Jeff Parnell
President

Encl.

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August 2023

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The Electrical Safety Authority
Toronto Hydro
TransAlta Generation Partnership O.H.S.C.
Westario Power

Power Workers' Union (PWU) Submission to the OEB on Draft Benefit-Cost Analysis (BCA) Framework

EB-2023-0125, February 1, 2024

The PWU appreciates the opportunity to provide comments on the OEB's draft Benefit-Cost Analysis (BCA) Framework for addressing Ontario's Electricity System Needs. The Draft OEB BCA framework was developed by the OEB in response to the Framework for Energy Innovation (FEI) Working Group (FEIWG) consultations. This OEB policy document outlines the methodology that electricity distributors are to employ when assessing the economic feasibility of Non-Wires Solutions (NWS) for defined electricity system needs. The PWU provided substantial feedback to the OEB in its August 2022 submission to FEIWG's July 2022 report¹ and another to the OEB in January 2023.²

The PWU applauds the OEB for accommodating many of the PWU's prior recommendations which included:

- BCA's must be based on materially accurate costs and benefits to achieve the expected results – the lowest cost solutions;
- Specify the methods, standards, and assumptions required to establish and validate the desired outcomes for decision making;
- Develop a decision-making framework for the transparent, comparative analysis of wires/pipes versus non-wires/pipes options enabled by both existing and/or new DERs; and,
- Broaden the scope to consider both utility and non-utility owned options.

The PWU commends the OEB for undertaking a phased approach for the development of this framework, focusing first on distribution system needs and the applicability of NWSs and followed by subsequent phases that examine broader electricity system issues. In particular, the PWU supports the OEB's conclusion that *"A distributor would only pursue NWS options where distribution service costs decline or are justified by improvements to distribution service that is provided to customers."*

The PWU supports FEIWG's observation that the foundational assumptions of the BCA design should consider the implications of Ontario's electricity governance, specifically the OEB's mandate. Taking a phased approach and providing mechanisms for distributors to identify broader system issues and funding mechanisms besides those regarding rates is an appropriate first step given that other factors will be considered in the subsequent phases of the OEB's initiative.

The PWU supports the following quoted elements of the draft BCA framework. The underlined and italicized sections represent the priority messages perceived by the PWU:

1. "The Framework provides direction to electricity distributors on the development of the BCA required to accompany any application to deploy an NWS."
 - "The BCA Framework establishes a new requirement that distributors shall document their consideration of NWSs when making material investment decisions as part of distribution system planning."
 - The PWU previously recommended the use of BCAs for all NWSs and not just Third Party DERs as originally considered by FEIWG reports.

¹ PWU Submission to the OEB on the FEIWG and Subgroup reports – EB-2021-0118, August 2022.

² PWU submission to the OEB on Considerations for Developing a DER BCA Framework, January, 2023.

- “This does not mean that a BCA will be required in all cases; rather a distributor should first conduct a pre-assessment to identify whether there is a reasonable expectation that an NWS may be a viable approach to meeting an identified need.”
 - The PWU continues to recommend the pre-screening step.
 - “The BCA Framework allows electricity distributors to demonstrate the economic feasibility of any NWS or traditional infrastructure solution with material costs for which ratepayer funding is being sought through the OEB.”
 - “The BCA Framework is effective for all electricity rate applications seeking approval for the 2026 rate year and onward.”
 - The PWU supports the use of the BCA as a general approach for all funding requests, as previously recommended.
 - “The DST is the mandatory test that must be employed by electricity distributors as part of the BCA Framework. The costs and benefits used for the calculation of the DST will be the primary consideration for assessing rate funding of an NWS.”
 - The PWU supports this mandatory test, particularly as an OEB BCA Framework Phase 1 outcome, acknowledging that, as the OEB undertakes its Phase 2 work, other factors may come into play.
 - The PWU has previously noted that, as the scope of the BCA expands, the suite of assumptions and validation protocols becomes more complex.
2. “Each BCA must include a distribution service BCA, which consists of a mandatory Distribution System Test (DST) and consideration of other qualitative distribution-level factors.”
- “Electricity distributors have the option of including an optional Energy System Test (EST) and consideration of other qualitative energy system factors.”
 - “For solutions addressing a distribution system need, the OEB’s determinations on cost recovery arising from the use of the BCA Framework are expected to be limited to the ratepayers of the electricity distributor seeking approval for funding from the OEB.”
 - “For solutions intended to address regional needs, the OEB would review the cost and associated rate impacts that would be borne by a rate-regulated electricity distributor net of any funding provided by other sources, as described in the CDM Guidelines. The BCA Framework is not intended to provide a mechanism for an electricity distributor to recover costs from customers other than the electricity distributor’s customers.”
 - “The impacts considered have been defined to allow for use of the BCA Framework in distribution system planning and potentially other integrated planning processes (i.e., regional planning), where possible.”
 - The PWU recommended that NWS options be considered in integrated planning processes e.g., regional planning. The PWU supports the OEB’s inclusion of integrated planning implications within the BCA framework. Distributors will be able to identify other sources of funding to offset the costs to the distributor’s customers where other parties may be recognizing value contributions.
 - Phase 2 of the OEB’s initiative may expand on how this integration impacts the content of BCAs.
3. “It is the role of the OEB to facilitate the implementation of the best solutions to meet system needs.”

- “It is not the role of the OEB to increase or accelerate NWS adoption, or to choose one technology solution over another.”
- The PWU supports this clarification of the OEB’s role. Previously the PWU recommended that NWS options should be determined based on BCA outcomes that demonstrate whether options are in the best interests of ratepayers. This builds on an earlier PWU submission that the need for additional incentives has not been established.
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- 4. “Templates for documenting the results of a benefit-cost analysis are included as part of the BCA Framework.”
 - “These templates must be completed and filed with the OEB for any proposed NWS.”
 - “The templates are deemed the minimum informational requirements when applying for ratepayer funding from the OEB.”
 - The PWU agrees with this use of the templates, as the PWU previously recommended.
- 5. “The study period – the length of time into the future considered by the BCA – should be determined by the alternatives being considered and should generally be sufficiently long to capture the costs and benefits under comparison.”
 - “For example, in the case where a transformer station upgrade is deferred by five years using an NWS, the study period would extend to the year in which the station upgrade is fully depreciated (e.g., 40 years after the deferred need date). This would allow for a comparison of the net present value of the lifetime annualized cost to customers of the transformer upgrade whether it was installed at the need date, or five years later at the deferred date.”
 - The PWU continues to recommend using study periods based on the longest-lived asset under comparison.
- 6. “Electricity distributors are expected to complete the filing template (see Section 6) with a level of detail proportional to the materiality of the costs being incurred and benefits being achieved...”
 - “... the BCA information filed in support of proposed electricity distributor spending may be tested during a hearing”
 - “Electricity distributors should ensure that their analysis is transparent, based on robust data and reputable sources, and replicable by others with the same inputs.”
 - “The BCA Framework will be accompanied by an Excel-based quantitative output template.”
 - The PWU supports these requirements as they provide a clear pathway to validate the assumptions and findings of a distributor’s BCA. The PWU previously recommended that OEB should ensure that the underlying assumptions and methods are sufficiently comprehensive, robust, and transparent to support the rigorous evidence-base assessment by affected stakeholders.

While the PWU generally supports the OEB’s direction outlined in its draft BCA framework, the PWU advises that there are some important additional considerations:

1. “In quantifying the benefits and costs of value streams, electricity distributor’s BCAs should consider only impacts incremental to the reference scenario that captures the business-as-usual outcome. BCAs must articulate the reference scenario in enough detail such that it is evident that the impacts considered in the BCA are, in fact incremental.”

- “Reference scenarios should align with business-as-usual electricity distributor practices. For example, where load growth means that demand on an asset will exceed its capacity, the reference scenario should be the historically standard response of the electricity distributor to addressing such growth (i.e., the development of a poles-and-wires solution).”
 - “Appropriately identifying value streams as incremental to the reference case is essential to ensure that impacts are being treated symmetrically and that none are being double counted.”
 - “This is especially important where, for example, the NWS makes use of already-existing solutions.”
 - The PWU had previously recommended that the BCA be based on a comparison of the net present value (NPV) of the “reference” scenario revenue requirements to those of alternatives that meet the same requirements. This explicit requirement to first identify the full characteristics of all of the individual alternatives followed by an assessment of their differences would provide greater transparency. While the net NPV results could be similar, greater detail and visibility can result.
2. “Electricity distributors weighted average cost of capital (WACC), among other factors, should be used in annualizing the revenue requirement associated with lump-sum capital investments, but this revenue requirement is then discounted at the societal discount rate (plus inflation) for the purposes of assessing the benefits to customers of deferring such investments (see Section 5.1.1.1). The WACC should not be used for estimating the net present value.”
- The PWU continues to recommend predicated the BCA on the annualized revenue requirement that ratepayers will be paying. However, this point should be emphasized more clearly and frequently in the document and that it applies to all costs and benefits considered in the BCA.
3. “All value streams included in the cost-effectiveness tests must be evaluated on a net present value basis, in constant dollars. Consistent with the IESO’s guidance for the economic analysis of NWSs, electricity distributors should use a real social discount rate of 4% for discounting cash flows to present value”
- The PWU has previously cautioned against using a generic social discount rate, particularly one as high as a real 4%. The use of a social discount rate places less value on future cash flows than current cash flows. Ratepayers expect that electricity costs will be the same or lower in the future. However, a social discount rate of 4% would allow a ratepayer impact 20 years from now to be higher than today’s costs in today’s dollars by 120%. For example, an NWS that saves 10% of the costs in the next 5 years but results in costs doubling in real terms 20 years from now may end up providing a positive NPV when using a high social discount rate. This is not the best approach. The PWU has continued to call for a more explicit policy on appropriate weighting mechanisms for transparently comparing future vs current real rate payer costs. For example, a 0% social discount rate would give equal weighting to future and current net benefits. While simply using a value that the IESO has chosen may be convenient for the OEB and distributors in developing a BCA, the IESO rate may not reflect ratepayer interests as the IESO is not generally accountable to ratepayer costs.
 - Employing a social discount rate, such as 4%, contradicts and undermines a key principle stated in the draft BCA framework for the Distribution Service Test (DST):

- “A distributor would only pursue NWS options where distribution service costs decline or are justified by improvements to distribution service that is provided to customers. Consideration of changes to service costs must necessarily (given the life of most distribution assets) take a long-term perspective.”
4. “Electricity distributors may propose (with supporting rationale) that an NWS found to be marginally non-cost-effective when applying the DST is still the preferred option to meet a system need. The OEB will consider approving such proposals when there are compelling qualitative impacts that support the deployment of the specific NWS and/or the EST provides further justification as to the feasibility of a given NWS.”
- Given the OEB’s express position that “*It is not the role of the OEB to increase or accelerate NWS adoption, or to choose one technology solution over another*”, the PWU submits that distributors should consider any compelling qualitative impacts that support the deployment of poles and wires solutions as well. Distributors should not propose an NWS found to be marginally cost-effective if the qualitative impacts have not been equally assessed for all options. The PWU believes it is important to maintain a level playing field for both solutions in all scenarios.

Closing

The PWU supports the OEB in its phased approach for the development of a BCA framework that directly informs the Distributors’ rate applications and focuses on identifying the lowest cost solutions for meeting distribution system needs.

The PWU has a successful track record of working with others in collaborative partnerships. The PWU is committed to the following principles: Create opportunities for sustainable, high-pay, high-skill jobs; ensure reliable, affordable, environmentally responsible electricity; build economic growth for communities; and promote intelligent reform of energy policy.

We believe these recommendations are consistent with and the objectives to supply low-cost and reliable electricity for Ontario. The PWU looks forward to discussing these comments in greater detail and participating in the ongoing stakeholder engagements.