

John Vellone
T: 416-367-6730
jvellone@blg.com

Colm Boyle
T: 416-367-7273
cboyle@blg.com

Borden Ladner Gervais LLP
Bay Adelaide Centre, East Tower
22 Adelaide Street West
Toronto ON M5H 4E3
Canada
T 416-367-6000
F 416-367-6749
blg.com



File No. 41054.5

November 8, 2024

BY RESS
registrar@oeb.ca

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

Dear Ms. Marconi:

Re: Essex Powerlines Corporation (“EPLC”) Cost of Service Application for 2025 Electricity Distribution Rates (“Application”) Ontario Energy Board (“OEB”) File No. EB-2024-0022 / EB-2024-0096 Reply Submission – 2025 PowerShare Distribution System Operator Capital Additions

On October 15, 2024, the OEB approved a partial settlement proposal on all issues on the OEB’s Approved Issues List for this proceeding (“**October Partial Settlement**”),¹ except: (a) Issues 7.4 and 7.5 that were determined in an earlier OEB Decision and Order EB-2024-0096 issued on August 29, 2024 wherein the OEB approved the PowerShare Deferral Account (“**PowerShare DVA**”) with an effective date of July 1, 2024 and an end date of March 31, 2026, subject to a cap, such that the maximum amount of costs to be recorded in the account is \$350,000 (“**August DVA Decision**”); and (b) costs relating to 2025 Distribution System Operator (“**DSO**”) PowerShare Pilot capital additions (“**Unsettled Issue**”).

On October 22, 2024, EPLC filed its Argument in Chief requesting that the OEB approve \$150,304 of net capital additions in the 2025 test year as filed.² On November 1, 2024, OEB Staff, the Vulnerable Energy Consumers Coalition (“**VECC**”), and the School Energy Coalition (“**SEC**”) filed submissions with the OEB on the Unsettled Issue.

Enclosed are the reply submissions of EPLC on the Unsettled Issue that support the request for OEB approval of \$150,304 of net capital additions in the 2025 test year.

¹ Issues List, 27 June 2024, online: <<https://www.rds.oeb.ca/CMWebDrawer/Record/857671/File/document>>

² Interrogatory Response 2-SEC-24, 30 July 2024, online:
<<https://www.rds.oeb.ca/CMWebDrawer/Record/860565/File/document>>

1. OEB Staff – Grid Innovation Fund (“GIF”) Contribution Agreement

OEB Staff raised a concern in submissions about contribution numbers not reconciling between the GIF Contribution Agreement, EPLC’s responses to 2-SEC-24, and EPLC’s Argument in Chief. Particularly, the OEB requested EPLC explain why a difference of \$137,748 exists between the response to 2-SEC-24 where the combined 2024 and 2025 in-service additions total \$384,209.70 and EPLC’s Argument in Chief where the combined 2024 and 2025 in-service additions total \$521,958. OEB Staff states the OEB should take this additional information into consideration in determining whether to approve the requested 2025 net capital additions for the PowerShare DSO Pilot.

EPLC’s response to 2-SEC-24 provided an incorrect value of \$384,209.70 and EPLC understands the confusion that resulted for OEB Staff. The scope of work has not changed, rather this was a computational error based on an incorrect starting point. EPLC will step through the evidence to explain how the value of \$150,304 was derived for the 2025 in-service additions and make the appropriate corrections along the way. Table 1 below sets out the proposed in-service additions related to the PowerShare DSO Pilot between 2023 and 2026, along with the third party contributed capital.

Table 1: PowerShare DSO Pilot In-Service Additions

	2023	2024	2025	2026	
Total Capital	301,866	743,308	300,608	531,982	1,877,764
3 rd Party Contributed Capital	150,943	371,654	150,304	265,981	938,882
Net Capital Additions	150,923	371,654	150,304	266,001	938,882

EPLC has a combination of capital expenditures for equipment, design, engineering, and connections costs to facilitate running the local energy market during the pilot project. Some of these capital expenditures are payments to other parties that are providing materials or services to the PowerShare DSO Pilot including NODES, Essex Energy Corporation, and Utilismart (“**Third Parties**”). EPLC is invoiced by the Third Parties as subcontractors. All invoices from Third Parties are paid by EPLC and remitted to the IESO for reimbursement from the GIF pursuant to the terms of the GIF Contribution Agreement.

Inclusive of GIF funding, the total PowerShare DSO Pilot project was initially expected to cost \$7,255,005.08. Costs payable by EPLC were expected to be \$3,372,616.70 and costs payable by the GIF were \$3,882,389.10, as shown in Table 2 and Table 3 below.³ The amounts payable by EPLC (and recoverable under the GIF Contribution Agreement) do not only include the column titled “Essex Powerlines Corporation (Cash)” in the amount of \$1,134,209.70. EPLC is also incurring costs payable to Third Parties in the amount of \$2,238,407, as shown by the highlighted yellow row in Table 3.

³ EPLC, Undertaking Responses, 2 July 2024, PDF page 30 & 107, online:
<https://www.rds.oeb.ca/CMWebDrawer/Record/858105/File/document>

Table 2: Summary of PowerShare DSO Pilot Total Costs

Company Name	Approximate total contribution (over full project duration)			
	Cash (\$)	Cash (% of total Project)	In-kind (\$)	In-kind (% of total project)
Essex Powerlines Corporation	\$1,134,209.70	14.02%	\$14,388.40	0.18%
NODES AS	\$0	0%	\$656,484	8.12%
Essex Energy Corporation	\$2,238,407	27.67%	\$137,900	1.7%
Utilismart Corporation	\$0	0%	\$25,000	0.31%
<i>Subtotal (non-IESO contribution)</i>	<i>\$3,372,616.70</i>	<i>41.7%</i>	<i>\$833,772.40</i>	<i>10.31%</i>
IESO Contribution	\$3,882,389.10	48%	\$0	0%
Total	\$7,255,005.80	89.69%	\$833,772.40	10.31%

Table 3: Initial PowerShare DSO Pilot Project Total Costs Breakdown

Total Contribution (IESO)	Essex Powerlines Corporation (Cash)	Essex Powerlines Corporation (In-Kind)	NODES (In-Kind)	NODES (Cash)	Essex Energy Corporation (In-Kind)	Essex Energy Corporation (Cash)	Utilismart Corporation(In-Kind)	Utilismart Corporation (Cash)
\$ 2,720.00	\$ 2,720.00							
\$ 9,000.00	\$ 4,500.00		\$ 4,500.00					
\$ 2,720.00	\$ 2,720.00							
\$ 1,360.00	\$ 1,360.00							
\$ 15,800.00	\$ 11,300.00	\$ -	\$ 4,500.00	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 3,882,389.10	\$ 1,134,209.70	\$ 14,388.40	\$ 656,484.00	\$ -	\$ 137,900.00	\$ 2,238,407.00	\$ 25,000.00	\$ -

Following the undertaking responses provided by EPLC on July 2, 2024 that disclosed Tables 2 and 3, EPLC began working with the IESO to amend the GIF Contribution Agreement to, *inter alia*, reduce the overall budget by removing the large Battery Energy Storage System (~1 MW) that was initially proposed and replace it with a smaller mobile battery solution.⁴ While EPLC is continuing to work with the IESO to finalize the budgetary amendments to the GIF Contribution Agreement, the revised budget expected to be included in the GIF Contribution Agreement amendment is detailed in Table 4. Total PowerShare DSO Pilot costs are now anticipated to be \$3,377,764, which is less than half the initial anticipated total cost of \$7,255,005.08, representing a significant reduction in capital costs associated with the project.

⁴ Interrogatory Response 2-SEC-24

Table 4: Anticipated Revised Milestone Payments for the GIF Contribution Agreement
Please note that MS1 means “Milestone #1”, MS2 means “Milestone #2”, and so on. Amounts related to Cost of Power are highlighted in pink.

Milestone #	Amendment
MS1	\$ 179,279
MS2	\$ 293,650
MS2A	\$ 239,800
MS3A	\$ 510,000
MS3B	\$ 662,568
MS4A	\$ 990,000
MS4B	\$ 470,868
MS5	\$ 31,600
TOTAL	\$3,377,764

Of the revised budget of \$3,377,764 for the total PowerShare DSO Pilot costs, \$1,500,000 (highlighted in pink in Table 4) is commodity costs. Removing this amount leaves the total PowerShare DSO Pilot in-service additions between 2023 and 2026 of \$1,877,764 (as shown in Table 1 above). Table 1 sets out the in-service additions of the PowerShare DSO Pilot during this period, with \$150,304 ultimately being accrued by EPLC in 2025.

For 2024 and 2025, the total in-service additions for the PowerShare DSO Pilot will equal \$521,958. The milestones filed as a schedule to the GIF Contribution Agreement describe what work is contemplated at each stage and the types of eligible expenses.⁵

2. OEB Staff – Post-Pilot PowerShare DSO Spending

OEB Staff is of the view that no spending related to post-pilot PowerShare DSO activities that may result from the PowerShare DSO Pilot project should be included in 2025 net capital additions. OEB Staff further states it would be inappropriate to approve post-pilot expenditures before the findings of the pilot are known. Should Essex Powerlines intend to pursue post-pilot DER/DSO activities, it can apply for additional funding if needed in a subsequent application to the OEB.

EPLC does not include any post-pilot costs in the 2025 in-service additions. The 2025 amount of \$150,304 is entirely related to costs necessary to achieve the intended learnings from the PowerShare DSO Pilot. The table included in 2-SEC-24 showed budgeted amounts related to post-pilot PowerShare DSO activities in future years after conclusion of the PowerShare DSO Pilot. EPLC considered OEB Staff’s submissions and agrees that it will not incur any post-pilot costs related to the PowerShare DSO without first evaluating the success of the PowerShare DSO Pilot and receiving approval for such funding in a future application.⁶

⁵ EPLC, Undertaking Responses, 2 July 2024, PDF pages 30-42, online:
<https://www.rds.oeb.ca/CMWebDrawer/Record/858105/File/document>

⁶ Decision and Order EB-2024-0096, 29 August 2024, see condition for report at pages 14-15 online:
<https://www.rds.oeb.ca/CMWebDrawer/Record/863674/File/document>

Removal of these future costs is reflected in Table 1 above. Revisions to the GIF Contribution Agreement will see more money falling into 2026 because of an extension to the project timeline and truncation of PowerShare DSO activities in 2026.

3. Ratepayer Benefits

Assuming OEB Staff accepts the clarification above on the 2024 and 2025 in-service additions above \$384,209.70, OEB Staff appears to accept the principle that EPLC should be entitled to recover from ratepayers amounts that are needed to achieve the intended learnings from the pilot, as described in the GIF Contribution Agreement with the IESO. OEB Staff views the PowerShare DSO Pilot as a distribution activity. SEC agrees with the submissions of OEB Staff. EPLC agrees with both OEB Staff and SEC on this point.

VECC does not support any recovery of 2025 in-service additions related to the PowerShare DSO Pilot from ratepayers but ultimately concedes to a 50/50 sharing of costs between ratepayers and EPLC. VECC criticizes EPLC's lack of evidence, cost-benefit analysis, or studies ascertaining the benefit for customers. After criticizing this lack of evidence, VECC somehow goes on to conclude throughout that it is "clear" EPLC ratepayers will pay more than they will get in benefits and that EPLC ratepayers are subsidizing private investors and provincial ratepayers.

EPLC has been clear throughout that the PowerShare DSO Pilot project is intended to test the concept of non-wires solutions ("NWS") incentive concepts and evaluate how these may affect market outcomes, including participation levels and price discovery. Without discovery on participation levels and price, EPLC cannot quantify potential benefits to customers of operating a DSO, which is premised on the idea of using distribution rate funding to enable NWS that could avoid or defer costly infrastructure investments. The information VECC is looking for simply does not exist.

EPLC ratepayers are receiving a fair proposition. EPLC is carrying out the PowerShare DSO Pilot at cost and foregoing potential incentive mechanisms available under the OEB's *Filing Guidelines for Incentives for Electricity Distributors to Use Third-Party DERs as Non-Wires Alternatives* (arguably a financial contribution by EPLC to the PowerShare DSO Pilot). The capital costs associated with the DSO Pilot are being paid 50% by the IESO's GIF (arguably a financial contribution by all Ontario ratepayers). In return for EPLC ratepayer contribution, the PowerShare DSO Pilot is being conducted within the service territory of EPLC ratepayers.

The information and learnings obtained from the pilot about the local NWS market are directly relevant and valuable for EPLC ratepayers. Multiple feeders serving EPLC's ratepayers are currently overloaded.⁷ These feeders may require costly upgrades, likely paid by EPLC ratepayers through increased rates, unless NWS can avoid or defer these upgrades. The targeted beneficiaries of the PowerShare DSO Pilot are EPLC ratepayers.

Moreover, the PowerShare DSO Pilot requires the installation of equipment and software to upgrade the local distribution system to accommodate distributed energy resources ("DERs"). Some of the enhancements to the grid include new in-line monitoring devices, software improvements, metering enhancements, and enhancements to connections to allow greater flexibility in the types of DERs that

⁷ Undertaking JT1.9

can be connected. The new assets, which EPLC ratepayers are receiving at half-cost, will benefit EPLC ratepayers even after the end of the PowerShare DSO Pilot. For example, real-time monitoring of the distribution system now provides EPLC with live visibility into system flows and constraints, allowing EPLC to act before reliability issues arise.

Please contact the undersigned with any questions.

Yours truly,

BORDEN LADNER GERVAIS LLP

A handwritten signature in black ink, appearing to read "Colm Boyle". The signature is fluid and cursive, with the first name "Colm" and last name "Boyle" clearly distinguishable.

Colm Boyle