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VIA RESS

Mr. Ritchie Murray
Acting Registrar
ONTARIO ENERGY BOARD
P.O. Box 2319, 27th Floor
2300 Yonge Street
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Dear Mr. Murray:

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

Association of Major Power Consumers in Ontario (AMPCO) & Industrial Gas Users Association (IGUA) Feedback on Draft Phase Two Framework

We represent AMPCO and IGUA in this matter, and write to provide their joint feedback on the Phase Two draft revisions to the OEB's *Benefit Cost Analysis Framework for Addressing Electricity System Needs* (BCA Framework).

References in this submission, including page references, are to the track changes version of the proposed revised BCA Framework provided by the OEB for comment. We use the acronyms NWS and NPS to mean non-wires solution(s) and non-pipe solution(s), respectively. While NPS is relevant only in the natural gas context, it is often the case that rules and protocols developed for electricity distributors are considered and applied in setting natural gas distribution rates and regulatory frameworks. That is why IGUA is interested in this consultation, and why, where applicable, we include reference to NPS alternatives in the discussion which follows.

General Principles

As in respect of the current version of the BCA Framework, AMPCO and IGUA's feedback on the proposed revisions to the BCA Framework continues to be guided by the following principles:

1. AMPCO and IGUA support proactive consideration of alternatives to conventional utility infrastructure where such alternatives are more cost effective and thus benefit customers.
2. AMPCO and IGUA endorse the use of both a distribution system test (DST) and an energy system test (EST) for evaluating NWS and NPS alternatives for the provision of energy services. Such endorsement assumes the appropriate allocation of costs associated with

broader energy system benefits across all benefiting customers so as to preclude cross-subsidy by the subject distributor's customers.

3. Costs are properly allocated in a manner that follows benefits, and cross-subsidies are to be avoided.
4. Societal benefits beyond energy services, such as broader economic or industrial policy benefits or environmental benefits, should not be funded through regulated energy delivery rates. Broader economic and social policy are properly the purview of government, through transparent legislative processes and government funding, not rate regulation or subsidies embedded in regulated energy services rates.

These principles commend the following general objectives in considering revisions to the OEB's BCA Framework:

1. The addition of a mandatory EST requires the maintenance of clarity on the appropriate scope of distribution customer funding versus transmission customer or third-party funding for NWS/NPS alternatives.
2. Continued clarity on host customer versus broader customer benefits is also warranted, and host customer benefits and costs should not be included in the analysis of cost effectiveness of NWS/NPS alternatives to conventional utility solutions or the determination of appropriate rate recovery for NWS/NPS alternatives.
3. Non-energy benefits of an NWS/NPS should only be considered qualitatively, should always be considered subject to the outcome of the applicable economic (i.e. customer impact) tests, and should not be codified through the addition of a "non-energy benefit" to the DST or EST calculations.

Addition of a Mandatory EST

AMPCO/IGUA endorse the addition to the BCA Framework of a mandatory EST.

This endorsement is on the basis that the proposed revisions to the framework generally continue to indicate that costs properly associated with benefits beyond those accruing to the host distributor's customers should not be included in the rates of that distributor.

In general, that is what the proposed revisions to the framework contemplate. For example, the revised section 2.3 of the framework includes, at the bottom of page 9, the following:

A mandatory EST enables consistent and accurate assessment of each of distribution and broader energy system benefits and costs, which better supports investment selection that is informed by the beneficiary pays principle. This step in the process better allows distribution customers to bear costs proportional to the benefits to the distribution system while enabling other provincial customers to bear costs proportional to the benefits to the broader energy system.

Similarly, the revised section 2.4 of the framework¹ indicates that [emphasis in original to indicate proposed addition]:

The costs and benefits used for the calculation of the DST will be the primary consideration for assessing distribution rate funding of an NWS.

AMPCO/IGUA endorse the proposed addition of the word “distribution” to this passage.

The paragraph in which this passage is found goes on to indicate that, except as noted following that paragraph, only those NWS alternatives with a passing score on the DST should be included in distributor applications for ratepayer funding.

The next paragraph² reads as follows [track changes reproduced as in the original, footnote in the original is omitted]:

Electricity distributors may propose (with supporting rationale) that an NWS which is found to be marginally non-cost effective, per the ~~DST~~ cost effectiveness tests, is still the preferred option to meet a system need. The OEB will consider such proposals where there are compelling qualitative impacts that support the deployment of the specific NWS and/or ~~the EST provides~~ provide further justification as to the feasibility of a given NWS.

On the subsequent page there is a new proposed section on “Third-Party Funding”³ which includes the following paragraph:

It is possible that the IESO may support the input assumptions and the EST outcome of an NWS for which there is no available third-party funding. In such situations, an electricity distributor may still seek recovery of costs through their distribution rates, with both the DST and EST results included in the relevant rate application.

Read together, even in the context of the sections in which they appear, the passages highlighted above could be read to derogate from the general principle that only costs associated with distribution customer benefits are recoverable by distributors in their regulated distribution rates. **AMPCO/IGUA suggest that the OEB consider clarifying in these passages that despite the mandatory application of the EST, only costs properly included in the DST are recoverable from the subject distributor’s customers in their regulated distribution rates**

AMPCO and IGUA members are the province’s largest energy consumers, are major contributors to regulated energy distribution revenues, and are highly exposed to competitiveness pressures. If system-level benefits were accepted as justification for recovery of costs in distribution rates, the resulting cross-subsidy by the subject distribution customers to the beneficiaries of the broader energy system would not only be inequitable, but could undermine energy affordability, and, in the

¹ BCA Framework, page 10.

² Starting at the bottom of BCA Framework page 10.

³ BCA Framework, page 11.

case of AMPCO/IGUA members, competitiveness, and drive load responses in the form of self-curtailment, self-supply or relocation.

A Non-Energy Benefit is not Appropriately Added

The proposed BCA Framework revisions include the addition of a new section 4.2 “*Consideration of Societal and Non-Energy Benefits*”. AMPCO/IGUA agree that NWS/NPS alternatives may provide non-energy benefits - environmental, economic and social - to society. While that society includes the customers of a subject distributor, such benefits do not accrue to those customers *qua* customers. Such benefits are not energy distribution services benefits. By definition they are “**non-energy** benefits”.

Accordingly, they should **not** be valued or approximated for inclusion in a DST or EST. Doing so could result in subsidies from distribution customers to pay for benefits to society at large. This would not be an equitable or an economically appropriate approach to setting regulated energy distribution rates.

The proposed discussion in a new “*Completing a BCA*” section of the BCA Framework⁴ is instructive in this respect. In specifying the two “*quantitative cost effectiveness tests*” to be used to evaluate NWS alternatives, the framework states (our emphasis):

*These tests are the primary tool for assessing the economic feasibility of an NWS. ... A mandatory EST enables consistent and accurate assessment of each of distribution and broader energy system benefits and costs, which **better supports investment selection that is informed by the beneficiary pays principle**. This step in the process better allows distribution customers to bear costs proportional to the benefits to the distribution system while enabling other provincial customers to bear costs proportional to the benefits to the broader energy system.*

The foregoing excerpt properly reflects the “costs follow benefits” principles inherent in economic regulation and reflected elsewhere in the BCA Framework.⁵

Consider also the discussion of “host benefits” on the preceding page of the BCA Framework⁶ (our emphasis):

*It is this perspective [on distribution customers as a group, or energy system customers more broadly] that defines what impacts are viewed as acceptable (or not) to include in each of the tests. Host benefits (e.g., customer energy benefits), for example, are not appropriate for inclusion. Including energy benefits that are realized by individual customers as benefits in the tests **implicitly allocates the costs of attaining those individual benefits across (in the case of the DST) all distribution service customers. Projects with host benefits are***

⁴ BCA Framework, page 9, section 2.3.

⁵ BCA Framework, pages 43 (enumerated item c)), 44 (2nd full paragraph), and 45 (top),

⁶ BCA Framework, page 26, first full paragraph.

still subject to the BCA Framework, however, the host benefit cannot be considered as an input to the analysis.

The same conceptual missive on implicit allocation of costs to those other than the applicable beneficiaries – i.e. the avoidance of cross subsidies – applies in the case of “non-energy benefits”. Attributing those non-energy benefits to a sub-set of energy customers through the DST, or even to a broader set of energy customers through the EST, would be a misallocation of benefits. Such benefits do not accrue as a result of providing energy services. Accordingly, costs incurred to drive such benefits should not be recovered in regulated distribution rates. This is not to say that such benefits are not properly considered, qualitatively, in assessing NWS/NPS alternatives. However, they should neither drive, nor be accounted for within, the economic analysis of such alternatives for the purposes of approving costs for recovery in regulated energy service rates.

The proposed BCA Framework revisions would expressly limit an non-energy benefit (NEB) adder (of 15%) to “NWS that align with the definition of eDSM (electricity conservation and demand-side management) from the Minister’s Directive to the IESO dated November 7, 2024 which is used in the current Ontario eDSM Framework.”⁷ Justification for the proposed NEB is provided by reference to the current natural gas DSM Framework and the IESO’s eDSM programs, both of which currently incorporate a 15% adder to account for non-energy environmental, economic and social benefits.⁸ AMPCO/IGUA note that the DSM Framework is under review, and the implications of effective elimination of the federally legislated retail carbon price, and related considerations regarding the advisability of (and jurisdiction for inclusion in rates of) a “social cost of carbon” are issues identified for consideration in that review. AMPCO/IGUA further note that the use by the IESO of a NEB adder in the context of eDSM varies across tests, which tests include the Total Resource Cost Test and the Societal Cost Test.⁹ These two tests are expressly broader than the DST or EST, which are by definition confined, at least in respect of quantitative inputs, to energy service costs (positive if incurred, negative if avoided) incurred by the utility.

AMPCO/IGUA oppose the addition of an NEB adder to BCA Framework DST and EST calculations. Any non-energy benefit considerations should remain qualitative, and in any event outside of the calculations used to justify cost recovery in regulated energy services rates of the costs of an NWS/NPS alternative.

As with system level benefits, acceptance of non-energy benefits as justification for recovery of costs in distribution rates would result in cross-subsidy by the subject distribution customers to the beneficiaries of the broader non-energy benefits, could undermine affordability, and, in the case of AMPCO/IGUA members, competitiveness, and drive load responses in the form of self-curtailment, self-supply or relocation.

AMPCO/IGUA suggest that the OEB clarify that qualitative considerations should be used only to differentiate between options otherwise close in economic outcomes or to address risk, reliability, safety or compliance issues, not to rescue an option that fails the DST or EST.

⁷ BCA Framework, page 28.

⁸ BCA Framework, page 28, first paragraph.

⁹ *Cost Effectiveness Guide for Energy Efficiency*, Independent Electricity System Operator, May 16, 2022, page 28.

Additional Clarifications

AMPCO/IGUA suggest consideration of the following additional clarifications in the revised BCA Framework:

1. Page 12: The first paragraph under the “*Regulatory Submissions*” heading (now section 2.6) uses the permissive word “*may*” in the 1st and 4th lines. The OEB could consider using the mandatory word “*must*” instead.
2. Page 12: The second last and last full paragraphs refer to the requirement that future “*rate applications*” be fully consistent with the BCA Framework. Given the discussion preceding these references of the relevance of the BCA Framework in both rate and ICM applications, the OEB could consider removing the “*rate*” qualifier from the reference to “*applications*” in these two paragraphs.
3. Page 15: The narrative on this page provides 3 illustrations of distribution system needs for which NWS are typically applied. The third of these (*Circuits with Underperforming Reliability*) refers to an approach “*to add redundancy through traditional infrastructure, and an NWS that can provide backup power to maintain service until the cause of an interruption is addressed.*” The addition of redundancy to the affected circuit and the addition of backup power to maintain service on an interim basis seem to be independent (rather than conjunctive) solutions. The OEB could consider substituting the word “*or*” for the word “*and*”, or replacing the word “*and*” with the term “*and/or*”, in the excerpted sentence above.
4. Page 18: The second full paragraph is unclear. AMPCO/IGUA suggest the following (track changes) clarifications:

Qualitative BCA considerations should be specifically tied to the impact categories specified for each BCA type (i.e., distribution service or energy system) ~~and should likewise be specifically tied to one or both types.~~

Conclusion

AMPCO and IGUA appreciate the opportunity to review and comment on the proposed phase 2 revisions to the BCA Framework, and hope that these comments are of assistance to the OEB.

Yours truly,



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- c. Brad Duguid, AMPCO
Nazim Sebaa, IGUA