EB-2009-0349: Determination of Direct Benefits
Notes for Presentation by the Coalition of Large Distributors

<u>The concept underlying O. Reg. 330/09 and its implications</u>

- The GEA requires expenditures by LDCs to connect renewable generation, but recognizes that those expenditures may be disproportionately borne by the customers of certain LDCs where those LDCs connect a disproportionate amount of renewable generation

- Since the 'benefits' of (eligible) renewable generation connection flow to all provincial customers and not just to the connecting LDC, the cost (i.e., distribution revenue requirement) of connecting the renewables should be borne by all provincial customers

- Therefore the concept is that the total distribution revenue requirement (DRR) of the connecting LDC may be decomposed into 2 components: the local distribution component, a.k.a the 'direct benefits', and the renewable connection component; and that these two components of revenue requirement are to be collected from local customers and provincial customers respectively

  - DRR = Local Distribution Component or 'Direct Benefits'+ RCC

- The concept applies to the DRR, and the purpose of the mechanism is specifically to provide relief to local ratepayers for the renewable connection component of the distribution revenue requirement. Quantities that are not included in the DRR to begin with should not be part of this calculation.

- 330/09 states:
  - the amount of *rate protection* to be provided to prescribed consumers in a distributor's service area = eligible investment *costs* determined by the Board to be the responsibility of the distributor in accordance with the DSC – the amount the Board determines to represent the direct *benefits* that accrue to prescribed consumers as a result of all or part of the eligible investment made or planned to be made by the distributor

- 330/09 should be understood as:

  - The renewable connection component (RCC) = total revenue requirement (of a given project or project portfolio which, at least in part, connects renewable generation) – the local distribution component

  - RCC = DRR – 'Direct Benefits'

  - 'Direct Benefits' = DRR - RCC

- This is because eligible investments are NOT restricted by definition only to costs incurred to connect renewable generation: according to 330/09, "The prescribed criterion for falling within the definition of an "eligible investment" under subsection 79.1 (5) of the Act is that the costs associated with the investment are determined to be the responsibility of the distributor [*as distinct from the generator*] in accordance with the Board's Distribution System Code."

- At section 3.2.2 of the Staff paper, it is specifically noted that eligible investments made in the distribution system may be directed to providing service to load customers as well as renewable generation

- In the language of the Board Staff paper at page 2:

  - "... the DCCR amendments set out the framework for establishing the 'gross' eligible investment costs and this consultation process will establish the framework for determining the 'net' costs (i.e., direct benefits) to be recovered from customers of the individual distributor making the eligible investment. The difference between those 'gross' and 'net' costs represents the amount to be recovered from all Ontario electricity consumers. As a consequence of the determination of the direct benefits, the cost allocation between provincial ratepayers and the ratepayers of the individual distributor will be determined."

- In summary, the purpose of 330/09 is to provide for the *division* of *costs incurred* (i.e., revenue requirement), not the attribution or monetization of the 'value of service provided' (e.g., reliability improvements), and for the *recovery* of the component of revenue requirement applicable to renewable generation connection from provincial customers rather than local customers only

Policy Dimensions of Discussion Paper Proposals

Avoided Transmission and WMS Costs

- Deployment of renewable generation will displace transmission load and change relative burdens of transmission and WMS cost recovery

- Displacement does not mean avoidance, and sunk or otherwise fixed costs are not reduced

- In addition, transmission and WMS costs are *outside* the envelope of costs in question, which consist exclusively of distribution revenue requirement

- There is a policy issue about how transmission and WMS cost recovery should be adjusted, if at all, as a result of renewable generation connection, but it is not appropriate for consideration here

Improved Distribution System Capability

- It appears that (some of) the Discussion Paper proposals are targeted to dividing the 'eligible investments' DRR since the paper recognizes that some eligible investments serve both load and renewable generation

- It is reasonable to develop (detailed) methodologies to divide the costs, but that should not include any attempt to quantify or monetize the 'value' of service quality or reliability enhancements, <u>since those concepts, even if they could be quantified, are outside of the basis of ratemaking, which is strictly 'cost prudently incurred'</u>

- A central policy question here is whether the cost division will be on a marginal or fully allocated basis. Assigning costs (and recovery) to connection of renewable generation on a marginal basis will tend to minimize provincial recovery and leave local ratepayers indifferent, since all costs would remain theirs except the 'but for' renewable generation connection costs. Fully allocating the renewable generation connection costs produces a positive benefit for local ratepayers at the expense of provincial ratepayers.

- CLD favours the marginal cost approach

Relative Standard of Materiality

- It is reasonable to use an approach that provides for a higher level of detail and analysis in support of larger eligible investments, and a lesser level for smaller eligible investments

- To recognize that in the case of some projects, the RCC may be small relative to the amount of time and effort required to calculate it, the Board should use a materiality test, or a threshold amount, to ensure the time and resources spent calculating the RCC are warranted considering its size

- The concept of materiality is a fundamental aspect of most other OEB guidelines. In this case the threshold could be a 'minimum cost per customer' that could be added to the provincial pool

- A uniform level of rigour, detail and effort should apply for all distributors <u>*for a given size of investment*</u>, to ensure that the Board and all distributors comply with the expectations of the Act and the regulation in determining direct benefits

- Should the cost of determining the RCC be added to the RCC for recovery from provincial ratepayers?