



Ontario  
Energy  
Board | Commission  
de l'énergie  
de l'Ontario

**BY EMAIL**

May 28, 2021

**To: All Rate-Regulated Electricity Distributors  
Independent Electricity System Operator**

**Re: Accounting Order (002-2021) for the Establishment of a Deferral Account to Record Costs Associated With Distributor Partnership in the Local Initiatives Program Under the 2021-2024 Conservation and Demand Management Framework**

**Ontario Energy Board File #: EB-2021-0106**

This letter provides guidance to electricity distributors related to distributor partnership in the Independent Electricity System Operator's (IESO's) [Local Initiatives Program](#) (LIP), further to the IESO's [announcement](#) of the first phase of the LIP on April 8, 2021. The OEB is establishing a new deferral account for distributors partnering with the IESO in the LIP to track incremental costs incurred through this partnership. Additional background on the LIP and the role of distributors, and guidance on the use of this deferral account, is provided below. The ability for distributors to apply for rate funded conservation and demand management (CDM) activities to meet local system needs is also briefly discussed.

### **Local Initiatives Program**

The IESO's [2021-2024 CDM Framework Program Plan](#) includes a budget of \$65.6 million over the four-year period for the LIP, which will deliver CDM savings in targeted areas of the province, as identified through the [regional planning process](#). Funding for the LIP and other CDM programs under the 2021-2024 CDM Framework is recovered from all Ontario electricity ratepayers through the Global Adjustment charge.

The objectives of the LIP are to:

- Deliver 57 MW of demand savings and 230 GWh of energy savings over four years

- Demonstrate the ability to use CDM as a resource to achieve specified demand and/or energy reductions that can help address regional and/or local electricity system constraints
- Identify how targeted CDM can be used as a resource in the service territories of local utilities to address distribution system needs
- Be cost effective and not duplicative of current province-wide CDM programs.

The LIP is expected to utilize competitive procurements to acquire CDM resources, which could use a similar approach to the [York Region Non Wires Alternative Demonstration Project](#).

The IESO announced that the first phase of this program will target four areas:

- Richview South area in Toronto
- York Region
- Ottawa
- Belle River area in Windsor-Essex

The IESO has indicated that it sees value for distributors in the target areas playing a partnership role in the LIP to support the development and deployment of LIP initiatives. Distributors' customers may be targeted and there is a potential for the LIP to meet local distribution system needs in addition to the regional needs. However, any costs incurred by distributors through this partnership role would not be eligible for funding from the 2021-2024 CDM Framework budget.

### **Local Initiatives Program Deferral Account**

The OEB is supportive of utilizing CDM to avoid or defer traditional infrastructure (wires) investments to meet system needs, including such needs identified in the regional planning process, as indicated in section 5.1 of the OEB's [Conservation and Demand Management Requirement Guidelines for Electricity Distributors](#) (the CDM Guidelines). The IESO has indicated that distributor partnership will be valuable in supporting the objectives of the LIP. This partnership role is optional for distributors. Incremental costs associated with this role would not have been specifically addressed in setting distribution rates.

For these reasons, the OEB is establishing a new Local Initiatives Program Deferral Account to enable distributors to track LIP partnership costs and seek recovery of these costs through distribution rates. The Local Initiatives Program Deferral Account should only be used by distributors that partner with the IESO for the LIP.

An accounting order is attached as an appendix to this letter.

The purpose of the Local Initiatives Program Deferral Account is to record costs incurred by a distributor associated with the distributor's participation as a supporting partner to the IESO in the LIP. Eligible distributor costs to be recorded in this account may potentially include activities such as procurement support, providing access to data, supporting evaluation, measurement, & verification activities, and supporting marketing and outreach activities, but shall **not** include the cost of resources procured through the LIP. Upon disposition of the account, the distributor must demonstrate that any costs have been prudently incurred and are related to a LIP partnership with the IESO.

The distributor and the IESO are expected to reach agreement on the responsibilities and projected costs to be borne by each party, to avoid duplication and to ensure proposed distributor activities support the objectives of the LIP. Distributors will be expected to demonstrate how their LIP activities will deliver value to their customers, at the time a distributor applies for disposition of any balance in the deferral account.

The OEB is classifying the Local Initiatives Program Deferral Account as a Group 2 account, with balances to be reviewed and disposed in the distributor's next cost-of-service application.

As the LIP is a new endeavour, there will be valuable lessons learned through distributor participation. The OEB encourages distributors to support the IESO and provide feedback to ensure continual improvements are made, providing value to ratepayers and the electricity system.

Based on the learnings from the first phase of the LIP, the OEB will review whether any prospective modifications are needed to the purpose of the deferral account.

### **Using CDM to Meet Local System Needs**

The resources that the IESO is procuring through the LIP are for the purpose of addressing needs identified through the regional planning process and are not intended to specifically meet local distribution system needs. However, there may be alignment between the regional needs and local distribution system needs. The option to apply for distribution rate funding for CDM activities for the purpose of avoiding or deferring infrastructure under the [CDM Guidelines](#) (section 4.1) remains available to all rate-regulated electricity distributors.

For distributors also partnering with the IESO in the LIP, this could include an approach that would leverage the LIP procurements to procure incremental resources to meet local distribution system needs, including integrating these resources into the distribution system. Any such application to procure incremental resources under

section 4.1 of the CDM Guidelines would be separate from the costs tracked in the LIP deferral account and can be filed with the OEB at any time.

Distributors submitting an application to the OEB requesting distribution rate funding under this provision should take account of the guidance in section 4.1 of the CDM Guidelines, including explaining the proposed CDM activity in the context of the distributor's Distribution System Plan, identifying the specific distribution infrastructure being avoided or deferred, and demonstrating that this is in an area of the distribution system where growth is anticipated and potential constraints have been identified.

The OEB is planning to update the CDM Guidelines to align with the 2021-2024 CDM Framework Program Plan, and intends to seek public comment by early summer on any proposed updates.

Any questions relating to this letter should be directed to Michael Parkes at [michael.parkes@oeb.ca](mailto:michael.parkes@oeb.ca).

**DATED at Toronto May 28, 2021**

**ONTARIO ENERGY BOARD**

*Original Signed By*

Christine E. Long  
Registrar

## **Appendix: Accounting Order (002-2021) for Local Initiatives Program Deferral Account**

Electricity distributors may establish two new accounts effective May 28, 2021:

1. Account 1508 - Other Regulatory Assets, Sub-account Local Initiatives Program Costs
2. Account 1508 - Other Regulatory Assets, Sub-account Local Initiatives Program, Carrying Charges

In Account 1508 Other Regulatory Assets, Sub-account Local Initiatives Program Costs, electricity distributors may record incremental administration costs directly attributable to the distributor's participation as a supporting partner to the IESO in the Local Initiatives Program. Carrying charges will apply at the OEB's prescribed rate.

Distributors are expected to track costs at a sufficiently detailed level or category to assist in a prudence review of the costs incurred.

The OEB will assess any claimed costs recorded in the sub-account at the time the sub-account is requested for disposition.

### **Sample Journal Entries:**

Dr. 1508 Other Regulatory Assets, Sub-account Local Initiatives Program Costs  
Cr. XXXX Account(s) associated with incremental costs, as applicable.

*To record incremental costs directly attributable to the Local Initiatives Program.*

Dr. 1508 Other Regulatory Assets, Sub-account Local Initiatives Program Costs  
Carrying Charges

Cr. 6035 Other Interest Expense

*To record the carrying charges on the monthly opening balance in Account 1508 Other Regulatory Assets, Sub-account Local Initiatives Program Costs.*