BY EMAIL

November 5, 2021

Brian Hewson
Vice President, Consumer Protection & Industry Performance
Ontario Energy Board
2300 Yonge Street, 27th floor
Toronto, ON M4P 1E4

Re: **EB-2020-0176 – Regional Planning Process Review**
Potential Changes to CDM Guidelines to Eliminate Barriers

Dear Brian Hewson:

On January 18, 2021, the OEB issued a letter that re-established the Regional Planning Process Advisory Group (RPPAG) to assist the OEB in its review of the current regional planning process.

The OEB identified that the initial focus of the RPPAG was to further assess certain high-level recommendations from the review completed by the IESO that the OEB is taking the lead on. The January 18th letter also indicated the scope of the RPPAG's work was not limited to assessing those IESO recommendations as there may be other areas where additional improvements can be made.

The RPPAG is still in the process of finalizing its report with recommendations to improve the regional planning process for the OEB's consideration.

One of the additional recommendations (i.e., not related to the IESO review) relates to potential changes to the OEB's Conservation and Demand Management (CDM) Guidelines; specifically, to eliminate some of the barriers to CDM measures that have been identified by the RPPAG.

It is the RPPAG's understanding from OEB staff that the OEB Executive Team will soon be considering potential changes to the CDM Guidelines based on the stakeholder feedback that was received in response to the August 5th OEB staff Discussion Paper related to updating the CDM Guidelines.

The RPPAG therefore felt it would be best to provide the attached recommendation in advance of the full report so it can be taken into consideration by the OEB.

As part of this recommendation, the RPPAG believes it will be important to undertake another review of the CDM Guidelines in the future following the completion of the OEB's Framework on Energy Innovation (FEI) initiative.

The RPPAG's progress has included robust and collaborative discussions to advance the objectives set out by the OEB. It has been an effective approach and is providing significant value in enhancing the knowledge and understanding among the members of the group on some complex issues.

Yours truly,

Regional Planning Process Advisory Group

Attachment: Potential Changes to CDM Guidelines to Eliminate Barriers

c: Theodore Antonopoulos, Vice President, Applications
Ryan Holder, Manager, Industry Policy & Compliance
Chris Cincar, Senior Advisor, Industry Policy & Compliance

Attachment – RPPAG Recommendation to the OEB

Potential Changes to the OEB's CDM Guidelines to Eliminate Barriers

In a recent Integrated Regional Resource Plan (IRRP) – Southern Huron-Perth IRRP – it was identified that a transmission line ("L7S circuit") that connects three LDCs to the bulk transmission network is forecast to reach its capacity limit to supply those LDCs over the longer term. Options considered to meet that capacity need include: (1) an upgrade to the transmission line connecting the LDCs to the system at an estimated cost of $10-15M; and (2) CDM (plus load transfers) to avoid the upgrade to L7S circuit at a lower cost of $6-12M, which includes an assumed $0 cost to consumers because a $26M investment in CDM is expected to be offset by a system benefit (i.e., avoided generation capacity). The IESO recommended the most cost effective (i.e., optimal) solution – combination of CDM and load transfers – to meet that capacity need.

However, the IRRP also stated that a funding mechanism may not be available to enable implementation of that optimal solution when this need materializes. If so, the sub-optimal wires solution would need to be implemented. The IRRP stated the following:

> "Recognizing the most cost-effective solution involves additional conservation, the [Technical] Working Group should also seek regulatory clarity on implementation mechanisms for this solution type in advance of the long-term need materializing, noting that multiple LDCs are supplied by the L7S circuit (i.e., would require clarification of approach if existing CDM Guidelines were to be leveraged for implementation) and the opportunity to leverage some existing mechanisms (i.e., the Local Initiatives Program) may or may not align with when the need materializes." (p.12)

The RPPAG notes that there are two cost responsibility issues in this case. First, there is a transmission asset deferral that is a benefit of the CDM investment. Second, there is a generation asset deferral that is also a benefit of the CDM investment. In neither case is there currently a mechanism to allocate the CDM investment costs to those beneficiaries of the transmission and generation asset deferral.

The most material of the two barriers identified in the IRRP to the implementation of the CDM investment is the deferred cost related to the generation asset. Until this issue is addressed, there is no funding mechanism outside the IESO's Local Initiatives Program (LIP) (as part of the IESO's 2021-2024 CDM Plan) to implement the least cost alternative. This may not be the best solution as the costs are solely recovered through the Global Adjustment (provincial cost recovery), which does not consider the local benefit. The LIP program may also not exist when the long-term need materializes.

The RPPAG therefore recommends that the approach to cost responsibility suggested below in this recommendation be reviewed once the OEB's Framework on Energy Innovation (FEI) initiative reaches a conclusion on defining an approach to measure the benefits of DER use cases relative to costs and assess the value of DERs relative to traditional wires investments.

As noted above, the OEB's CDM Guidelines were also identified in the Huron-Perth IRRP as a potential funding option for the transmission asset deferral. However, the RPPAG notes that funding through the existing CDM Guidelines would not be a viable option because this scenario would involve deferring / avoiding a transmission infrastructure upgrade and funding under the existing CDM Guidelines is limited to avoiding / deferring a distribution infrastructure upgrade. Section 4.1 is specifically entitled "*Applications for Rate-Funded Activities to Defer Distribution Infrastructure*". In addition, the existing CDM Guidelines only appear to contemplate an application from a *single* LDC in referring to "a distributor". In this case, the needs of *multiple* LDCs would be met.

The RPPAG also notes that, if the same transmission line connection (L7S circuit) was owned by an LDC – rather than a transmitter – it would be 'deemed' to be a distribution asset by the OEB and the CDM Guidelines would be a viable option. However, the L7S circuit is owned by a transmitter and is therefore a transmission asset, so the CDM Guidelines are not a viable option. The RPPAG does not believe the type of utility – transmitter vs. LDC – that owns the asset should be a determinant of whether LDCs can leverage the CDM Guidelines for funding a CDM solution.

The RPPAG further notes that, if the higher cost transmission upgrade was implemented, it would be relatively straightforward to implement under the OEB's existing regulatory instruments; specifically, the Transmission System Code (TSC). The transmitter would make the investment (i.e., upgrade the line) and recover a capital contribution from each of the three LDCs *"in proportion to their respective non-coincident incremental peak load requirements"* (i.e., based on proportional benefit) as set out in section 6.3.15 of the TSC. If it was determined that the transmission *connection* upgrade also provided a *network* benefit, a portion of the cost would be recovered from all ratepayers through the transmission network charge under section 6.3.18.

The OEB has indicated its intent to update the CDM Guidelines with the issuance of the OEB staff Discussion Paper related to updating the CDM Guidelines (EB-2021-0106). That Discussion Paper states the following in the OEB staff Proposal related to Regional Planning:

> "The OEB should incorporate any additional **guidance** that arises from the ongoing **Regional Planning Process Review**, including any actions by the IESO to address

barriers to non-wires alternatives, **into the CDM Guidelines** when appropriate."
(emphasis added) (p.12)

The RPPAG believes the recommended changes to the CDM Guidelines set out below are important because virtually all *wires* solutions identified through the regional planning process are *transmission* connection investments (i.e., not *distribution*).

The RPPAG is recommending the following for consideration, as part of the update to the CDM Guidelines, as an incremental improvement in addressing the current barriers related to implementation of the most optimal solution where it involves CDM:

- Allow for CDM funding that defers/avoids *any* type of infrastructure (wires) investment (i.e., also transmission), regardless of what type of electric utility owns the asset.

- Clarify that multiple LDCs (and transmitter, where applicable) are permitted to submit a joint application and should be required to do so where approval of funding for all the applicable LDCs (and transmitter, where applicable) would be required to meet the regional need.

- A joint application would also facilitate the determination of the appropriate cost responsibility among the LDCs. In that regard, the RPPAG also recommends that the approach to cost responsibility be the same as it would be for the transmission solution; that is, based on the proportional benefit. Similar to the TSC, if there was transmission *network* benefit, it would need to be confirmed by the IESO before any costs are recovered from all ratepayers.

However, the RPPAG is also recommending that the CDM Guidelines only be leveraged to address regional needs on a conditional basis; that is, if adequate funding is not available through an IESO program, such as the LIP program. As noted in the OEB staff Discussion Paper, the LIP program was specifically created to procure resources (e.g., CDM) *"for the purpose of addressing needs identified through the regional planning process"*. This recommendation is consistent with the existing CDM Guideline framework as CDM solutions are typically not eligible for funding under the OEB's CDM Guidelines if the solution is eligible for funding through an existing IESO CDM program.[1]

[1] The CDM Guidelines state: "Before applying to the Board for CDM funding to defer distribution infrastructure, distributors should confirm that the proposed program is not eligible for funding from the IESO."

In summary, the RPPAG is recommending the following:

1. Expand the scope under the CDM Guidelines to also allow for funding that defers/avoids transmission infrastructure investments (i.e., not limit to distribution infrastructure).

2. Clarify that multiple LDCs are permitted to submit a joint application and should be required to do so where approval of funding for all the applicable LDCs would be required to meet the regional need and demonstrate the transmission infrastructure would be deferred.

3. Where there is a joint application, the approach to cost responsibility under the CDM Guidelines be aligned with the approach under the TSC if it was a transmission investment (i.e., based on the proportional benefit).

4. The CDM Guidelines be leveraged to address regional needs on a conditional basis; that is, if adequate funding is not available through an IESO program, such as the LIP program.

5. Undertake another review of the approach to cost responsibility once the OEB's FEI initiative reaches a conclusion on defining an approach to measure the benefits of DER use cases relative to costs and assess the value of DERs relative to traditional wires investments.

Toronto Hydro supports all aspects of this recommendation including the multiple LDCs benefiting from the CDM investment being permitted to bring forward a joint application for approval of funding to meet the regional need; however, Toronto Hydro does not support a joint application being required (i.e., those multiple LDCs could request approval of the CDM funding as part of their own individual rate applications).