

September 2, 2022

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Re: Feedback for OEB on Cost-Effective Integration of DERs (EB-2021-0118)

For more than a century, the Ontario Chamber of Commerce (OCC) has supported economic growth in Ontario by advocating for business priorities at Queen's Park on behalf of our 60,000 members, including local chambers of commerce and boards of trades in over 157 communities.

The OCC welcomes the opportunity to comment on the Framework for Energy Innovation (FEI) Working Group's final reports on distributed energy resources (DERs).

The OCC recognizes DERs can serve as one of many tools for achieving net-zero tool and fostering further economic development. Supporting their integration into the electricity grid is an opportunity to advance a number of Ontario's societal and environmental priorities.

Ultimately, our comments are focused on ensuring that adoption of emerging DER technology is cost-effective and provides ratepayers with the lowest-cost solutions to reliably meet Ontario's emerging electricity system needs. DERs have the potential to delay or reduce the need for major infrastructure investments, and their costs are expected to fall over time. Policy decisions must be based on a long-term view of costs and benefits to the extent these can be measured.

The feedback provided in this submission reflects a few factors:

- 1) The FEI Working Group (FEIWG) significantly advanced the definition of the DER integration challenge but has left critical questions unanswered.
- 2) The development of the benefit-cost-analysis (BCA) framework should be as robust as possible, in order to help utilities make optimal decisions.
- 3) Limiting the scope of the FEIWG to third-party ownership of DERs is too narrow and prevents a more fulsome analysis of the potential benefits that DERs can bring

Context of the FEIWG Activities

In May 2021, the OEB confirmed the priority workstreams of the FEIWG would be to:

- Investigate and support utilities' use of DERs they do not own as alternatives to traditional solutions to meet distribution needs; and

- Ensure that utilities' planning is appropriately informed by DER penetration and forecasts.

The following subgroups were established:

- The Benefit Cost Assessment (BCA) Subgroup was tasked with defining an approach to measure the benefits and costs of DER solutions as alternatives to traditional distribution investments.
- The Utility Incentive (UI) Subgroup was asked to explore appropriate incentives for utilities to adopt DERs for distribution uses that do not require equity investment by the utility.
- The DER Integration (DERI) Subgroup was convened to identify information about DERs that distributors require to plan and operate their systems effectively.

The delivery of the FEIWG Report to the OEB represents the completion of the work of the FEIWG while also stating that more work needs to be done.¹ The FEIWG Report identifies the overarching and cross-cutting issues that emerged from the subgroups' work, as well as recommendations for next steps the OEB should consider in relation to the priority workstreams and the broader FEI goal of facilitating cost-effective integration and use of DERs. The OEB has requested comments from interested stakeholders on the following matters related to the reports:

General/ Prioritization of Next Steps

1. What is the relative priority of the issues and next steps identified by the FEIWG?

Developing a BCA Framework

2. What is the appropriate scope of a BCA Framework? In other words, should a narrow or broad set of benefits and costs be considered with respect to deployment of DERs as alternatives to traditional solutions to meet electricity distribution system needs?

Developing and Implementing Utility Incentives

3. How might the OEB remove disincentives for utilities to adopt DER solutions?
4. Is providing incentives to distributors to facilitate adoption of DER solutions (i.e., non-wires alternatives) appropriate? Under what circumstances?
5. If incentives are appropriate, how should the OEB select/develop the form of incentive that should be available?
 - a) Are there options the Incentive Subgroup did not identify that should be considered?

Ensuring Distribution Planning is Informed by DER Adoption

6. What should the OEB consider when setting expectations to ensure distributors appropriately consider DER adoption when planning and operating their systems (e.g., industry guidance, additional filing requirements for Distribution System Plans, new requirements for reporting and sharing information)?

¹ FEIWG Final Report, June 2022, page 4

OCC Feedback on Requested Matters

The primary interest of the OCC and its members is that any framework for energy innovation that may result from the OEB's initiatives should be focused on ensuring that adoption of emerging DER technology is cost-effective and provides ratepayers with the lowest cost solutions to reliably meet Ontario's emerging electricity system needs. The comments that follow reflect that perspective.

Question #1 – Prioritization of Next Steps

Although the final report identified several next steps to be initiated outside the FEIWG, the OCC believes that there are critical questions that should be answered before final policy is set and some of these have urgent implications on other initiatives in the sector. The OCC suggests that the FEIWG-identified next steps could be prioritized into three areas:

- Determining Costs and Benefits (FEIWG Next Steps 2 & 3)
- Informing effective planning (FEIWG Next Steps 1 & 6)
- Exploring policy Options (FEIWG Next Steps 4, 5, & 7)

Priority #1 – Determining Costs and Benefits

It is incumbent on the OEB and the sector as a whole to produce clear cost/benefit and DER penetration assumptions under conditions that reflect a low-cost electricity system approach. This would provide clarity on the magnitude of DER considerations that are relevant to the system and hence the priority that should be awarded to applying system planning resources to addressing it.

As a result, the following two FEIWG recommendations should be given the highest priority:

- **Next step #2: Actively engage in the broader energy sector policy development activities.** As the FEIWG report states, the evolution of the energy sector is being influenced by many organizations and it would be best that these efforts lead to a cohesive, rational framework for DER integration, rather than a host of potentially inconsistent regulatory requirements.² The cost effectiveness of this evolution is rooted in the governance of the sector, which was the topic of the Ministry's 2021 consultation on effective long-term planning.³ In response, stakeholders have made recommendations as to the role of the OEB within the governance structure to best ensure the cost-effective evolution of the sector, including considerations of the impacts of rate programs.⁴ Establishing the OEB's roles in policy development of the broader energy sector is critical to advancing the dialog on DERs.

² FEIWG Final Report, June 2022, Page 16.

³ Ministry of ENDM, Reviewing Ontario's long-term energy planning framework, January, 2021.

⁴ Green Ribbon Panel, Submission for the Ministry of Energy, Northern Development and Mines - review of Ontario's long term energy planning framework, 2021.

- **Next step #3: Establish an initial framework and template for Benefit Cost Analysis (BCA).** The FEIWG report and the BCA subgroup report both identify that there are important next steps to complete before a BCA framework can be finalized, including “the development of Ontario-specific assumptions, inputs, and methods for a BCA.”⁵ The FEIWG report emphasized the need for sound and robust evidence-based policy.⁶ Finalizing the considerations to be included in a BCA is important to the scope of the other next steps contained in the FEIWG report.

Priority #2 – Informing effective planning

The FEIWG report emphasizes in several places that while the FEI related policies are being developed, there is an ongoing suite of initiatives and activities related to DER adoption which should not result in missed opportunities while ongoing policy development proceeds.⁷ While a robust policy framework requires the completion of the Priority #1 activities above, there is a need to provide as much near-term guidance as possible until the final frameworks are established. As a result, it is important for the OEB to ensure progress is made on two FEIWG recommendations:

- **Next step #1: Provide further guidance on the role of distributors and the expectations of them.** Guidance is particularly needed with respect to “their relationship to third party DER providers and customers, and modifications to the planning and operation of their systems” on “practical things like how to modify the development of their next Distribution System Plan to be consistent with OEB expectations.”
- **Next step #6: Establish an initial policy for the sharing of information between LDCs, DER providers, and customers to support distribution planning and operations.** Regulated utilities would be assisted with their planning and operations in the near term if the OEB established a transitional policy for information sharing (including with respect to pilots).

Priority #3 – Exploring Policy Options

A theme that emerged in FEIWG discussions was the need to provide due consideration of the costs to distributors of new requirements associated with accommodating DERs.⁸ The anticipated scale and scope of DER penetration has material impacts on the cost justification of requirements imposed on distributors and hence distributor-connected rate payers. Furthermore, the UI subgroup suggested consideration of “the effectiveness of incentives, the costs to customers, intended and unintended consequences of different approaches, and regulatory simplicity.”⁹ For these reasons,

⁵ FEIWG BCA Subgroup Report, June 2022, Page 33.

⁶ FEIWG Final Report, June 2022, page 6.

⁷ FEIWG Final Report, June 2022, page 19.

⁸ FEIWG Final Report, June 2022, page 13.

⁹ FEIWG Final Report, June 2022, page 12

activities to address the following FEIWG recommended next steps should first be informed by the role of rate programs and the magnitude of the financial benefits of the anticipated cost-effective DER adoption, which are the subject of the recommended Priority #1 Next Steps discussed above:

- **Next step #4: Remove DER disincentives including cost recovery uncertainties.**
- **Next step #5: Establish an initial DER incentives policy including testing possible incentive structures.**
- **Next step #7: Develop Regulatory Reporting Requirements for DERs, including RRR Filings, Applications, and other OEB Reporting.**

Question #2 – Developing a BCA Framework

The OEB's request for feedback on the appropriate scope of a BCA framework is a very important question laid out in both the FEIWG report and the BCA subgroup report as an area requiring OEB guidance.

The settled upon framework should ensure the lowest cost solutions for ratepayers. The subgroup report defines a BCA framework as including its purpose and use, the benefits and costs to be considered in decision making, and the standardized methods, assumptions and reporting requirements.¹⁰ There are many risks related to how the BCA development may unfold that are embedded in the factual details of Ontario's electricity sector that, if improperly considered, could lead to higher cost solutions rather than lower costs solutions.

There are two key elements to how an *appropriate* scope for a BCA is ultimately defined:

1) Establishing the scope of a BCA Framework:

The BCA subgroup report laid out a spectrum of potential scope options for the BCA framework that range from a distribution system-specific scope, through a scope involving only OEB regulated entities, and ultimately to full energy system and/or societal impacts considerations that would involve implications for the IESO and even potentially the Ministry of Energy.¹¹ The report also identified four factors to be considered by the OEB in determining the appropriate scope: cost reduction; distributional fairness; distribution rates, and OEB jurisdiction.

While the OCC supports the BCA subgroup's general theme of maximizing the scope to be considered, we feel the priority should be to assess the cost-effectiveness of adopting emerging technologies for the purpose of providing ratepayers with the lowest cost solutions to reliably meet Ontario's emerging electricity system needs.

¹⁰ FEIWG BCA Subgroup Report, June 2022, page 3

¹¹ FEIWG BCA Subgroup Report, June 2022, page 2

The greater the scope, the greater the need for governance reform to enable utility planning integration and the higher likelihood of achieving the desired lowest cost solutions.

2) Defining BCA considerations:

Assuring lowest cost solutions through the use of a BCA is achievable only if the BCAs are materially accurate with respect to the costs and benefits anticipated. The BCA subgroup report has clearly identified the need to complete this work, as stated earlier, as it is not yet at an implementable stage, nor even at the stage necessary to quantitatively inform decisions around what the “appropriate” scope of the BCA framework should be. To fully characterize the appropriate BCA framework, work is required to:

- Consider how Ontario’s jurisdictional specifics, governance characteristics, and rate program regimes affect BCA assumptions and hence the potential for net benefits;
- Detail the methods, standards, and assumptions required to establish validate and relevant outcomes for decision making;
- Establish the comparative decision-making framework for the analysis, to meaningfully contrast wires/pipes options against non-wires/pipes alternatives enabled by both existing vs new DERs; and
- Broaden the scope to consider both utility and non-utility owned options for completeness.

The UI Subgroup has cautioned that unintended consequences should be carefully considered.¹² As a result, an imperative component of finalizing the framework is ensuring that the BCA assumptions and methods are robust and complete and can pass the rigorous evidence-base scrutiny of affected stakeholders.

Establishing the scope of the BCA as noted above is a critical factor in finalizing the above elements. As the BCA scope broadens, the suite of assumptions and validation protocols become more involved and the costs imposed on distributors (and hence ratepayers) of undertaking BCAs increases.

Questions #3-5 – Utility Incentives

The UI subgroup report concluded that issues related to appropriate recovery of a utility’s costs associated with adopting DER solutions and any disincentives for DER solutions should be addressed.¹³ The primary achievement of the work is the provision of greater clarity around the definition of what the incentive design challenge may be. However, the subgroup report should consider the following:

¹² FEIWG UI Subgroup Report, June 2022, page 14

¹³ FEIWG Final Report, June 2022, page 12.

- 1) The mandate given to the UI Subgroup to focus on non-utility owned DERs is too narrow.

The FEIWG reports show that assessing the cost-effective integration of DERs is a much bigger question than the availability of third-party-owned DER solutions. Considerations may also include many options such as utility-owned DERs as well as the potential for integrated cross-utility collaborative investments such as between distributors, transmitters, and the IESO and/or with natural gas utilities. These alternative options also require assessment of existing incentive models. The UI Subgroup report identifies this broader context as relevant to fully informing an appropriate approach to DER adoption.¹⁴ The next assessment should be made in this fuller context.

- 2) The presence and potential removal of disincentives/barriers to the cost-effective adoption of non-wire alternatives (NWAs) using DERs warrants priority investigation.

It is critical that the costs of accommodating or integrating DERs by a distributor are identified by a BCA and mechanisms for the allowable recovery are established. This is related to the BCA subgroup report that identifies a category of distribution system costs and emphasizes the need for distributional fairness of the cost recovery. The further development of the BCA framework will advance the understanding of the nature of the costs and how they should be recovered. The UI Subgroup identification of potential barriers to DER adoption that may exist in the Distribution System Code and others should be explored.

Question #6 – Distribution Planning

The DERI subgroup report laid out the anticipated context for DER adoption in Ontario and identified that changes to the existing regulatory and governance framework may be required in four areas:¹⁵

- Collaborative planning across all levels to establish requirements and solutions;
- The provision of information for both planning and operating purposes;
- A method for ascertaining when DERs are a cost-effective alternative for meeting system needs;
- Mechanisms for the electricity sector to recover the costs of DER solutions.

With respect to the first point, the DERI subgroup report identifies “the need for greater coordination between provincial, regional, and local electricity system planning”¹⁶ and places great emphasis on the need for information to support the increasing needs to plan for DER adoption and accommodate them during operations. Furthermore, the DERI report states: “The OEB should consider options for facilitating the exchange of information between electricity and natural gas

¹⁴ FEIWG UI Subgroup Report, June 2022, page 5.

¹⁵ FEIWG DERI Subgroup Report, June 2022, pages 4, 5.

¹⁶ FEIWG DERI Subgroup Report, June 2022, page 7.

distributors necessary for evaluating solutions that benefit both systems.”¹⁷ This recommendation underscores the importance of the FEIWG Priority #1 next step for the OEB to actively engage in the broader energy sector policy development activities and examine the regulatory and governance framework as it relates to planning.

Closing

The OCC thanks the OEB for initiating the FEIWG activities and for supporting the FEIWG’s reports that have advanced the discussion on DER integration in Ontario’s electricity system. Future work remains to be done to establish a DER integration policy framework that enables cost-effective adoption of emerging technologies to provide ratepayers with the lowest cost solutions to reliably meet Ontario’s emerging electricity system needs. We look forward to continuing to work with the OEB and our members on this important issue.

¹⁷ FEIWG DERI Subgroup Report, June 2022, page 14.