February 1, 2024

VIA RESS

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Ms. Nancy Marconi
Registrar
ONTARIO ENERGY BOARD
P.O. Box 2319, 27th Floor
2300 Yonge Street
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Dear Ms. Marconi:

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

December 2023 Draft Framework Comments of Association of Major Power Consumers in Ontario (AMPCO) and Industrial Gas Users Association (IGUA).

We represent AMPCO and IGUA in this matter, and write to provide comment on the OEB's December, 2023 *Draft Benefit-Cost Analysis Framework for Addressing Electricity System Needs* (Draft Framework).

Section 2 – Intended Purpose and Use

The OEB has encouraged commenters to closely review Section 2 of the Draft Framework which addresses its intended purpose and use. AMPCO and IGUA endorse the focus on *"economic feasibility (i.e. benefits exceed costs)"*[1] of a non-wires solution (NWS), and the general proposition that the purpose of the framework is not to increase or accelerate NWS adoption, *per se*, but rather should always remain as one *"to enable prudent investment in NWSs"*[2]. The Draft Framework provides, and AMPCO and IGUA agree, that the purpose of the framework is, and should remain, to *"allow[ ] electricity distributors to demonstrate the economic feasibility of any NWS or traditional infrastructure solution with material costs for which ratepayer funding is being sought"*[3], by focussing on the costs and benefits to the proposing distributor's customers as distribution customers.

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[1] PDF page 8, 2nd full paragraph.
[2] PDF page 8, 2nd full paragraph.
[3] PDF page 8, 2nd full paragraph.

The Draft Framework further addresses the option of considering a broader *"energy system test"* (EST), in particular in reference to a NWS which presents only a marginally positive or negative distribution system benefit.[4] Such a broader EST is also consistent with AMPCO and IGUA positions to date, in that it recognizes as appropriate some consideration of energy system benefits (as distinct from broader societal benefits) beyond the implementing distributor.

The Draft Framework specifies that the OEB's determinations on cost recovery arising from the use of the BCA Framework are expected to be limited to distribution ratepayers of the electricity distributor seeking approval for funding for an NWS. The Draft Framework states:[5]

> *The BCA Framework is not intended to provide a mechanism for an electricity distributor to recover costs from customers other than the electricity distributor's customers. The cost allocation that an electricity distributor proposes as part of its rate application may not necessarily be linked to the costs considered in a BCA cost effectiveness test.*

This caution on cost allocation is repeated elsewhere in the Draft Framework.[6]

AMPCO and IGUA endorse the *"costs follow benefits"* principal highlighted elsewhere in the Draft Framework[7], and agree that customers of a particular distributor should not bear costs associated with benefits to other energy customers. Further, distribution rates should not include costs associated with benefits to other aspects of the energy system (i.e. transmission or generation), which would distort price signals and would render "just and reasonable" distribution rates increasingly opaque and difficult to validate. We assume that is what is meant by the statement included in the excerpt above and repeated elsewhere in the Draft Framework that:

> *The cost allocation that an electricity distributor proposes as part of its rate application may not necessarily be linked to the costs considered in a BCA cost effectiveness test.*

The meaning of this statement could be clarified.

As noted in our November, 2023 comments on the Guidehouse *BCA Handbook - Project Plan* materials, the Framework for Energy Innovation (FEI) BCA Sub-group Report contemplates future work on allocation of costs of non-wires/non-pipes alternatives to those within the energy system under the regulatory purview of the OEB who would benefit from implementation of such alternatives. The OEB has indicated that further consideration of an EST is to be pursued in the next phase of this project. Such further consideration should include consideration of how the benefits of non-traditional energy services solutions would accrue to customers beyond those of the implementing distributor and how associated costs could be allocated and recovered.

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[4] Draft Framework, section 1.2.
[5] PDF page 10, 2nd full paragraph.
[6] Draft Framework, PDF page 23, first full paragraph; PDF page 40, 4th paragraph.
[7] For example, PDF page 35, under the bolded subheading *"The symmetrical treatment of incremental costs and benefits"*.

Discount Rate

In our November, 2023 comments on the Guidehouse *BCA Handbook - Project Plan* materials we queried the contemplated use of a "social discount rate". A social discount rate is generally used to *"reflect[ ] an estimate of the time value of infrastructure investments* ***on a broad societal level"***[8] [our emphasis]. In the context of an analysis meant to isolate costs and benefits to either a distribution customer or to customers of other component energy services (i.e. transmission or generation), we suggested that it would be helpful to clarify the basis for use of a social discount rate, and the impact of that choice as compared to using a utility specific WACC derived discount rate.

On this point the Draft Framework reiterates the use by the IESO of a social discount rate in its guidance for the economic analysis of NWSs, and further states:[9]

> *The use of the social discount rate to capture the time-value of money is consistent with the perspectives of both the [Distribution System Test] and the [Energy System Test], which is to maximize the long-term net benefit of distribution service and the energy system (respectively) for customers (see Section 4.1 and 4.2). Electricity distributors weighted average cost of capital (WACC), among other factors, should be used in annualizing the revenue requirement associated with lump-sum capital investments, but this revenue requirement is then discounted at the societal discount rate (plus inflation) for the purposes of assessing the benefits to customers of deferring such investments (see Section 5.1.12.1). The WACC should not be used for estimating the net present value of any value stream included in the cost-effectiveness tests.*

As we noted in our November, 2023 comments, the discount rate that provides a more accurate reflection of the cost, or avoided cost, to utility ratepayers of a utility investment would be the utility specific weighted average cost of capital (WACC) derived discount rate. The utility specific WACC reflects the actual cost to customers of utility financed infrastructure investments as actually reflected in rates, and the actual benefit to customers of avoiding or deferring such investment. Utility WACC is generally higher than a social discount rate, resulting in a relatively lower net present value of net customer benefits forecast from a utility investment.

The rationale provided in the Draft Framework repeats the reference to the use by the IESO (for different purposes) of a social discount rate, and adds an assertion regarding maximizing long-term net benefit for customers of distribution service, in support of use of a social discount rate rather than a discount rate which actually reflects the time value of customer money recovered in distribution rates (i.e. WACC). ***We respectfully suggest further consideration, and articulation in the next iteration of the BCA Framework, of the economic rationale and justification for the proposed choice of discount rate.***

In particular, it is not clear to us what *"long-term net benefit"* is considered to accrue to distribution customers from NWSs, beyond avoided higher distribution costs for the non-NWS baseline distribution service solution. More specific identification of such *"long-term net benefit"* might justify

[8] *Integrating Regional Resource Plans: Guide to Assessing Non-Wires Alternatives*, IESO, May 26, 2023, page 24, second paragraph.
[9] Draft Framework, PDF page 15 in section 3.2.2.

use of a social discount rate, and the resulting higher (compared to a WACC discount rate analysis) net present value of the calculated NWS benefit, to the extent that such benefit to the customers of the subject distributor are over and above the distribution service benefits achieved through deployment of the NWS. Otherwise, use of an economic factor intended for another (broader societal) context remains questionable.

Distribution Service Benefits vs. Individual Customer Benefits

In the context of distribution service benefits to be included in the NWS economic analysis, the Draft Framework indicates the permitted identification, as a qualitative consideration, of *"any anticipated reduction to net avoided outage costs to customers as a result of NWS implementation"*.[10] On the following page (last full paragraph) there is a reference to application of estimated outage metric improvement to *"the value of lost load to customers in the area affected"*. The "value of lost load" (VOLL) generally refers to the cost to the customer of an interruption in electricity service, as recognized through the customer's willingness to pay for security of supply.

Similarly, in the context of benefits for consideration under the Energy System Test, the Draft Framework permits identification, as a qualitative consideration, of *"any anticipated reduction to net avoided outage costs to customers as a result of the NWS implementation"*.[11]

Care should be taken in articulation of the BCA Framework that values specific to one or more customers not be conflated with the value to all distribution customers from investments avoided through deployment of the proposed NWS. *To preclude this mixing of different economic concepts,* ***the BCA Framework should be very clear on the basis for inclusion of the VOLL concept or avoided customer costs in economic analysis of an NWS, and how any such values should, and should not, be used in considering the value of an NWS as compared to the baseline conventional distribution infrastructure alternative.***

Such clarification would be consistent with that provided later in the Draft Framework that [our emphasis][12];

> *As with reliability, care must be taken to ensure that any resilience improvements being considered are distribution service improvements, and not just host resilience improvements.*

Additional Comments

For assistance, we flag the following minor drafting issues that we noticed in the document:

1. At PDF page 42, in the context of articulation of components of the EST, there are two references to *"distribution"* that may have been intended to be references to *"energy"*;

[10] Draft Framework, PDF page 30, last full paragraph.
[11] Draft Framework, PDF page 41, section 5.2.1.5.
[12] PDF page 32, last full paragraph.

a. First paragraph, second last line, last word.

b. 2nd line under the heading *"5.2.2. Energy System Costs"*, first word.

2. At PDF page 7, last paragraph, 3rd line, the word "an" has been dropped between the words *"BCA as"* and *"independent document"*.

3. At PDF page 12, 2nd line, the word *"a"* should be removed between the words *"employ"* and *"solutions"*.

Conclusion

AMPCO and IGUA appreciate the opportunity to comment on the Draft Framework, and hope that these comments are of assistance as the OEB proceeds with its work on this policy.

Yours truly,

Ian A. Mondrow

c: Colin Anderson, AMPCO
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