



BULLETIN

DATE ISSUED: September 29, 2022

**TO: All Licensed Electricity Distributors
All Licensed Electricity Transmitters
Independent Electricity System Operator (IESO)**

RE: Local Community Preference for Alternative to most Cost Effective Solution

This Bulletin clarifies that a local community may choose an alternative solution to the optimal (i.e., most cost effective) solution identified to meet a need determined through a distribution planning or regional planning process, based on local preference. It also provides guidance in relation to how cost responsibility should be addressed in such cases.

Context

The Ontario Energy Board's (OEB) Regional Planning Process Advisory Group (RPPAG) provided a [Report to the OEB](#) in December 2021 that included recommendations to improve the regional planning process. The OEB then indicated that it intended to move forward on all the recommendations that require action to be taken by the OEB.¹

One of those recommendations involved the OEB issuing cost responsibility guidance to address cases where local communities desire a solution to address a need (e.g., a need to improve reliability), where the desired solution reflects local preferences and is higher cost than the optimal (i.e., most cost effective) solution identified in a regional plan. The IESO identified a need for such guidance in its Regional Planning Process Review Report, in the context of facilitating non-wire alternatives (NWA).²

¹ The OEB issued a [letter](#), on April 28, 2022, with its response to the RPPAG's recommendations and an Implementation Plan.

² IESO [Final Report](#), Regional Planning Process Review, February 3, 2021, p.46.

OEB staff notes that, while the need for guidance was identified within the context of regional planning, the guidance in this Bulletin also applies where a regional plan is not required (i.e., only a Local Planning process involving a distributor and the transmitter is triggered), as that is a frequent outcome in the regional planning process.³ A distributor may also identify in its distribution system plan (DSP) that the optimal solution is a wires solution, but the local community prefers an alternative higher cost NWA solution, such as a distributed energy resource (DER).

The most common example to date of local preference resulting in the implementation of a higher cost alternative solution is related to distribution (or transmission) wires. That is, a municipality wants the utility to underground the wires where it is not necessary to do so. Instead, it is requested for aesthetic reasons. The guidance discussed below therefore applies to all types of solutions – wires and non-wires – to meet a need that has been identified in a plan.

Guidance

In response to the input from the IESO and the RPPAG, OEB staff is issuing this Bulletin to highlight previous guidance that the OEB has provided in relation to local choice based on local preference and provide OEB staff's view as to how a distributor should apply the guidance. In a 2017 Notice regarding amendments to the Transmission System Code and the Distribution System Code, referred to below as the "2017 Notice", the OEB set out the following guidance to distributors related to a local community's preference for an alternative "premium" solution and the recovery of incremental costs (i.e., amount that exceeds the cost of the optimal solution):⁴

"Community desire for more than 'optimal' solution in regional plan – No mechanism in place to fund Local Choices

.....

[T]here may be instances where a community desires a 'premium' solution that is preferred, but is not necessary (i.e., higher cost than the 'optimal' solution). For example, the undergrounding of transmission [or distribution] wires for only aesthetic reasons. Currently, neither code (TSC or DSC) addresses how costs should be allocated in relation to such 'premium' wires solutions.... (emphasis added)

³ Local Planning is undertaken where planning is required but regional coordination is not (i.e., one distributor has a need, and the process only involves the distributor and the transmitter).

⁴ [Notice of Proposal to Amend the Transmission System Code and the Distribution System Code \(EB-2016-0003\)](#), Regional Planning and Cost Allocation, September 21, 2017, p.35.

*The OEB believes that, **where such a premium solution is desired, the incremental cost of the investment should be funded through other means, rather than through distribution rates** (e.g., by the municipal shareholder through municipal property taxes similar to the approach recently used in Ottawa). This approach is consistent with the optimal infrastructure solution principle discussed above, as the ‘premium’ solution would not be the ‘optimal’ solution identified in the regional infrastructure plan. (emphasis added)*

While the OEB is of the view that only the cost associated with the ‘optimal’ solution (as identified in a regional plan) should be recoverable in rates, the OEB considers that the issue identified ... should be addressed on a case by case basis, in an adjudicative process, rather than through a change to the Codes. The distributor or transmitter would need to justify any proposed investment that deviates from the optimal solution identified in the regional infrastructure plan as part of a rate or [leave to construct] application.

The [local] preference may be [distributed generation] and/or [conservation & demand management], in some cases.”

Consistent with the guidance expressed by the OEB in the 2017 Notice, OEB staff is of the view that when a distributor submits a rate application that includes a “premium” solution, the distributor should identify the following in its application:

- 1) Optimal solution (identified in distribution system plan or regional plan) and related total cost.
- 2) Premium solution (based on local preference) and related total cost.
- 3) Source of funding to cover incremental cost associated with the premium solution and documentation showing a commitment to provide it.
- 4) Confirmation that the alternative premium solution will meet the need.

The views expressed in this Bulletin are those of OEB staff and are not binding on a panel of Commissioners. Any enquiries regarding this Bulletin should be directed to the OEB’s Industry Relations email address at industryrelations@oeb.ca.