



Ontario  
Energy  
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**BY EMAIL**

November 1, 2024

Ms. Nancy Marconi  
Registrar  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4  
[Registrar@oeb.ca](mailto:Registrar@oeb.ca)

Dear Ms. Marconi:

**Re: Ontario Energy Board (OEB) Staff Submission  
Essex Powerline Corporation (Essex Powerlines)  
Application for Rates Effective January 1, 2025  
OEB File Number: EB-2024-0096/EB-2024-0022**

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Please find attached OEB staff's submission in the above referenced proceeding, pursuant to the OEB Decision and Order issued on October 15, 2024.

Yours truly,

*Original Signed By*

Amber Goher  
Advisor, Electricity Distribution Rates

Encl.

cc: All parties in EB-2024-0096/EB-2024-0022



# **ONTARIO ENERGY BOARD**

## **OEB Staff Submission**

**Essex Powerlines Corporation**

**Cost of Service Application**

**EB-2024-0096/EB-2024-0022**

**November 1, 2024**

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## Background

On February 16, 2024, Essex Powerlines Corporation (Essex Powerlines) filed an application seeking approval to establish a new deferral account to capture commodity costs that exceed the cost of power for any kWh procured by Essex Powerlines through its PowerShare Distribution System Operator pilot project (PowerShare DSO project). Essex Powerlines requested approval of two sub-accounts to track local capacity cost (net of funding) and energy costs (net of funding and Hourly Ontario Energy Price). Essex Powerlines requested that the new account be effective from February 19, 2024, to March 31, 2026, covering the period of the PowerShare DSO project.

On May 1, 2024, Essex Powerlines filed a cost of service application seeking approval for changes to the rates that it charges for electricity distribution, beginning January 1, 2025.

Both applications were filed pursuant to Section 78 of the *Ontario Energy Board Act, 1998* (OEB Act). As set out in the OEB's March 13, 2024 letter to Essex Powerlines, the OEB determined that both applications would be combined into one proceeding (referred to collectively as the Applications). The Applications were accepted by the OEB as complete on May 15, 2024, and a Notice of Hearing was issued on May 24, 2024.

On June 12, 2024, the OEB issued Procedural Order No. 1 granting Hydro One Networks Inc. (HONI), School Energy Coalition (SEC) and Vulnerable Energy Consumers Coalition (VECC) intervenor status.

On June 21, 2024, pursuant to Procedural Order No. 1, OEB staff submitted a proposed revised Issues List. On June 27, 2024, the OEB issued its Decision on Issues List, approving the proposed revised Issues List submitted by OEB staff (the Approved Issues List).<sup>1</sup>

On June 24, 2024, pursuant to Procedural Order No. 1, the OEB convened a transcribed presentation and technical conference specifically to address the deferral account request. Essex Powerlines filed its undertaking responses from the technical conference on July 2, 2024.

Procedural Order No. 1 prescribed a separate and expedited settlement process related to the deferral account issues (Issues 7.4 and 7.5 on the Issues List). Following a settlement conference held on July 4, 2024, the Parties arrived at time-limited partial settlement. OEB staff attended the settlement conference; however, it is not a party to the partial settlement proposal.

Essex Powerlines filed the partial settlement proposal with the OEB on July 12, 2024, followed by Argument in Chief on the DVA issues on July 16, 2024. OEB staff filed a

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<sup>1</sup> [Approved Issues List](#)

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submission on the partial settlement proposal filed on July 12, 2024 and on the unsettled matters related to the deferral account application. The OEB issued its decision related to the deferral account application on August 29, 2024.

A settlement conference was held August 7-9, 2024 related to all the remaining issues on the Approved Issues List (excluding 7.4 and 7.5). Essex Powerlines, SEC and VECC participated in the settlement conference. OEB staff attended the conference but was not a party to the settlement. HONI did not participate in the settlement conference and is not a party to the settlement.

Essex Powerlines filed a partial settlement proposal covering all issues on September 23, 2024. The partial settlement proposal proposed a written hearing for the unsettled portion of issue 1.1 related to PowerShare DSO Project related costs to be included under capital additions in 2025 (Unsettled Issue). On September 27, 2024, OEB staff filed a submission regarding the partial settlement proposal.

On October 15, 2024, the OEB issued a Decision and Order approving the partial settlement proposal and establishing procedural steps for the written hearing on the Unsettled issue.

On October 23, 2024, Essex Powerlines filed an Argument-in-Chief. This is the OEB staff's submission on the Unsettled issue.

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## OEB Staff Submission

### Capital additions related to the PowerShare DSO project in the test year (Issue 1.1)

1.1 *Are the proposed 2025 capital additions for the PowerShare DSO project appropriate?*

#### PowerShare DSO Project Description and Background

Through the PowerShare DSO project, Essex Powerlines intends to test the concept of non-wires solutions (NWS) for alleviating system constraints and evaluate how these may affect market outcomes, including participation levels and price discovery. Essex Powerlines will act as a DSO for a distribution-level market, activating distributed energy resources (DERs) in its service area in near real-time.

The PowerShare DSO project has received a funding commitment from the Independent Electricity System Operator (IESO)'s Grid Innovation Fund (GIF), and regulatory support from the OEB Innovation Sandbox (OEB staff were asked if, in its view, the proposed activities in connection with the PowerShare DSO project could be considered distribution activities. OEB staff agreed that, in its view, they could).<sup>2</sup> The roles and expected funding contributions for the IESO, Essex Powerlines, and other participants are established in the GIF Contribution Agreement.<sup>3</sup> Essex Powerlines indicated that its expectation is that its funding contributions for the PowerShare DSO project will be recovered in their entirety from its ratepayers.

Essex Powerlines' expected costs fall into two categories:

- **Commodity costs for PowerShare DSO project participants.** The OEB's August 29, 2024 Decision and Order approved a PowerShare Deferral Account, that can be used by Essex Powerlines to record commodity costs incurred through payments to PowerShare DSO project participants (net of the 50% GIF funding provided by the IESO) to procure capacity and electricity from distributed energy resources that exceed the price at which electricity could be purchased from the IESO's grid. The OEB capped the maximum amount that could be recorded in this account at \$350,000, which was less than the amount of \$554,525 requested by Essex Powerlines. No outstanding issue remains in this proceeding related to commodity costs for PowerShare DSO project participants.
- **Capital costs.** Essex Powerlines also proposed capital expenditures related to the PowerShare DSO project. The partial settlement proposal approved by the OEB on October 15, 2024 included an agreement to include \$371,654 net in

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<sup>2</sup> [OEB Innovation Sandbox Guidance for Essex Powerlines Corporation](#)

<sup>3</sup> The GIF Contribution Agreement is filed as JT 1.5 Appendix B. Schedule A of the GIF Contribution Agreement provides financial commitments and milestones, and Schedule C provides a detailed project description.

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2024 in-service additions for amounts spent or committed to be spent on the PowerShare DSO project.<sup>4</sup> The Parties did not settle 2025 capital additions related to the PowerShare DSO project.

### Approval Requested

In its Argument-in-Chief, Essex Powerlines requested that the OEB approve \$150,304 of net capital additions in the 2025 test year for the PowerShare DSO project, as filed. Essex Powerlines indicated that a reduction in the maximum cap on the PowerShare Deferral Account in the August DVA Decision does not reduce the capital additions needed to carry out the PowerShare DSO Project, and that none of the activities can be scaled back without compromising contractual objectives set out in the PowerShare DSO project's GIF Contribution Agreement with the IESO. Essex Powerlines also indicates that reducing 2025 capital additions would result in forgoing matching 50% contributions from the IESO under the GIF.

### Summary of OEB Staff Submissions

OEB staff makes the following submissions on the requested 2025 capital additions for the PowerShare DSO project:

- Essex Powerlines should have the ability to recover capital costs for the PowerShare DSO project that are needed to achieve the intended learnings from the pilot, as described in the GIF Contribution Agreement with the IESO. Essex Powerlines' required contribution in the GIF Contribution Agreement (net of "Cost of Power") is \$384,209.70. This cost is reasonable and appropriate to recover from Essex Powerlines' customers.
- However, the 2025 net capital additions for the PowerShare DSO project requested by Essex Powerlines, combined with already approved 2024 in-service additions for the PowerShare DSO project, represent a total of \$521,958 in capital additions for this pilot project, exceeding Essex Powerlines' required contribution in the GIF Contribution Agreement by \$137,748. OEB staff submits that Essex Powerlines should provide further explanation as to why this additional funding is needed to achieve the pilot objectives. The OEB should take this additional information into consideration in determining whether to approve the requested 2025 net capital additions for the PowerShare DSO project.
- No spending related to **post-pilot** DER/DSO activities that may result from the PowerShare DSO project should be included in 2025 net capital additions. It would be inappropriate to approve post-pilot expenditures before the findings of the pilot are known. Should Essex Powerlines intend to pursue post-pilot DER/DSO activities, it can apply for additional funding if needed in a subsequent application to the OEB.

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<sup>4</sup> Settlement Proposal, p.16

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Additional details are provided below.

### Essex Powerlines' Required Capital Contribution to Achieve Pilot Objectives

The OEB's August 29, 2024 decision approved Essex Powerlines' request for a PowerShare Deferral Account (with a reduced cap of \$350,000). The OEB decision noted that the PowerShare DSO project "will be of benefit to Essex Powerlines as it looks to non-wires solutions in order to create flexibility within its distribution system and to mitigate local constraints on the grid" and indicates that the cap for the PowerShare deferral account was set at a level "still enabling Essex Powerlines to procure sufficient capacity and energy to achieve the desired learnings from the pilot."<sup>5</sup>

Given this OEB approval, OEB staff submits that it would not be appropriate to unduly limit Essex Powerlines' ability to recover related capital costs such that the learnings from the pilot would not be achieved. OEB staff submits that the appropriate basis for determining these capital costs is the GIF Contribution Agreement.

Under the GIF Contribution Agreement, Essex Powerlines is expected to make a cash funding contribution of \$1,134,209.70 in order to implement the PowerShare DSO project.<sup>6</sup> However, this total includes Essex Powerlines' forecast contribution for energy and capacity costs, which is recovered separately through the approved PowerShare deferral account. When this "Cost of Power" portion is removed, Essex Powerlines' required cash funding contribution in the GIF Project Budget is reduced to \$384,209.70.<sup>7</sup> These costs include measurement and verification equipment and the associated design and engineering activities necessary to implement that equipment to facilitate running the Local Energy Market during the pilot project, including the connection and measurement of DER participants. OEB staff submits that this cost is reasonable and appropriate to recover from Essex Powerlines' customers, and that these activities are necessary to achieve the pilot learnings from the PowerShare DSO project.

OEB staff further accepts Essex Powerlines' conclusion that the reduction in the maximum cap on the PowerShare Deferral Account in the August DVA Decision does not reduce the capital additions needed to carry out the PowerShare DSO Project.<sup>8</sup>

### Reconciling Essex Powerlines' 2025 Capital Request With GIF Contribution Agreement

Essex Powerlines requests that the OEB approve \$150,304 of net capital additions in the 2025 test year related to the PowerShare DSO project. Essex Powerlines also

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<sup>5</sup> EB-2024-0096/EB-2024-0022 Decision and Order, August 29, 2024, p. 12, 14

<sup>6</sup> JT 1.5, Appendix B (GIF Contribution Agreement), p. 13 of 26 (Schedule A)

<sup>7</sup> 2-SEC-24 (c), Table 2-27. Essex Powerlines' calculation is based on a "Cost of Power" budget for Essex Powerlines of \$750,000 in the GIF Contribution Agreement (the sum of tasks 3.1.1 (\$242,250), 3.1.1a (\$12,750), 4.2.1 (\$470,250) and 4.2.1a (\$24,750) in the Detailed Project Budget for the GIF) (included in JT 1.5, Appendix C).

<sup>8</sup> Essex Powerlines Argument-in-Chief, p.1



forecasts additional expenditures in subsequent years in the rate term.<sup>9</sup>

Table 2- 26: Detailed Project Budget Reconciled

2023	2024	2025	2026	2027	2028	2029
150,943	371,654	150,304	153,310	156,377	159,504	162,694

Essex Powerlines previously indicated that its required cash funding contribution of \$384,209.70 in the GIF pilot project budget (net of “Cost of Power”) is equivalent to the entirety of its 2024 in-service additions of \$371,654 for the PowerShare DSO project (subsequently approved in the OEB’s August 29, 2024 Decision and Order) plus a small carry-over of \$12,556 in 2025.<sup>10</sup> Based on that information, OEB staff’s understanding was that the approved 2024 in-service additions for the PowerShare DSO project, plus \$12,556 in 2025, was what Essex Powerlines believed was necessary to implement the **pilot** as described in the Grid Innovation Fund proposal and achieve the pilot’s objectives, and that requested 2025 PowerShare DSO project capital additions above this amount were not for the pilot itself, but for potential post-pilot activities (OEB staff’s position on post-pilot spending is described in the next section).

In contrast to its earlier response, Essex Powerlines’ Argument-in-Chief indicates that its requested 2025 PowerShare DSO project capital addition is directly related to pilot activities, and that “failure to fund the full amount of 2025 capital additions could jeopardize the viability of the entire DSO PowerShare Pilot as termination of the Contribution Agreement results in EPLC no longer being entitled to any further payments from the GIF.”<sup>11</sup> However, Essex Powerlines provides no explanation to reconcile this statement with its earlier response, or to explain why Essex Powerline’s capital costs for the PowerShare DSO project (combining 2024 in-service additions and requested 2025 capital additions) should exceed by \$137,748 the amount included in the GIF Contribution Agreement.

OEB staff submits that Essex Powerlines should provide further explanation in its Reply Argument as to why this additional funding beyond the amounts detailed in the GIF Contribution Agreement is needed to achieve the pilot objectives. The OEB should take this additional information into consideration in determining whether to approve the requested 2025 net capital additions for the PowerShare DSO project.

### Post-Pilot PowerShare DSO Spending

It is important to distinguish between capital spending by Essex Powerlines that is

<sup>9</sup> 2-SEC-24 (c), Table 2-26

<sup>10</sup> 2-SEC-24(a). (\$371,654 + \$12,556 = \$384,210). Essex Powerlines does not indicate how the additional \$150,943 in Essex Powerlines’ 2023 capital spending on the PowerShare DSO project is addressed in this reconciliation.

<sup>11</sup> Essex Powerlines Argument-in-Chief, p.2

directly needed to implement the PowerShare DSO project pilot, as it is defined in the GIF Contribution Agreement, and capital spending for any post-pilot activities related to DSOs/DERs that result from the pilot. Some of the forecast PowerShare DSO project spending shown in Table 2-26 is clearly for the latter purpose. Essex Powerlines states that “Any amounts over and above the GIF project budget of \$504,109.70<sup>12</sup> detailed in the 2023-2029 table above represent expected ongoing DSO activity costs to implement a permanent local energy market or like solution as may be realized in the market to serve future needs. The assets contemplated include measurement and verification equipment to enable local energy markets and connect potential participants.”<sup>13</sup>

Such post-pilot activities are speculative at this time and it would be inappropriate to approve post-pilot expenditures before the findings of the pilot are known. The OEB’s previous decision to reduce the requested cap in the PowerShare Deferral Account was based in part around concerns regarding ratepayer impact, and the fact that the benefits of a local market for DERs were only potential benefits that would be explored through the pilot.<sup>14</sup> The OEB noted that, once it has “achieve{d} the desired learnings from the pilot, Essex Powerlines will then be in a good position to build on the pilot results and determine whether to pursue additional procurement of resources to alleviate local area system constraints.”<sup>15</sup> OEB staff submits that including any potential costs for post-pilot DER/DSO activities in 2025 net capital additions, in advance of obtaining pilot learnings, would be inconsistent with the intent of the OEB’s previous decision, and should not be approved.

The OEB’s [Non-Wires Solutions Guidelines for Electricity Distributors](#) provide the ability for distributors to apply for additional funding for a non-wires solution prior to their next rebasing, if necessary.<sup>16</sup> Should the pilot demonstrate that there would be value in continued investment in post-pilot DER/DSO activities, Essex Powerlines could apply for additional funding on this basis.

OEB staff also notes that should Essex Powerlines intend to pursue post-pilot DER/DSO activities, this may require a subsequent application to the OEB, even if the OEB approves Essex Powerlines’ requested capital additions for the PowerShare DSO project in this proceeding. This is because post-pilot DER/DSO activities would likely entail not only capital spending, but spending to compensate participating DER providers for energy and capacity, similar to what is being funded in the pilot through the approved PowerShare Deferral Account. This account has an end date of March 31,

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<sup>12</sup> This amount includes the \$384,209.70 for Essex Powerlines shown in Table 2-27, but also includes the expected contributions of Essex Energy Corporation (\$93,700) and Oakville Hydro (\$26,200). OEB staff believe \$384,209.70, not \$504,109.70, is the correct value for Essex Powerlines’ expected contribution in the GIF project budget (net of Cost of Power), but invites Essex Powerlines to provide further information in its Reply Argument if this is not the case.

<sup>13</sup> 2-SEC-24 (c)

<sup>14</sup> Decision and Order, August 29, 2024, p. 13-14

<sup>15</sup> Decision and Order, August 29, 2024, p. 14

<sup>16</sup> Section 3.3

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2026, and no funding for the utilization of DER resources beyond this date is included in Essex Powerlines' approved rates. Should Essex Powerlines seek to utilize DER resources beyond this date, it would therefore likely need to apply to the OEB for approval of a funding mechanism (e.g., requesting to extend the lifetime and increase the cost cap of the PowerShare Deferral Account). Therefore, it appears to OEB staff that any consideration of funding approval for post-pilot spending on DER/DSO activities, capital or otherwise, should be reserved for a potential future application.

~All of which is respectfully submitted~