

Enbridge recommended that distributors should spend 3% of gross revenues. Pollution Probe recommended spending up to \$2.50/MWh on “customer-side of the meter” CDM programs in 2006, which represents about 3% of gross revenues. The CEEA argued for an expenditure level ranging between 0.5% and 3% of gross revenues. GEC recommended a required minimum level of CDM spending of 1% of gross revenue and a threshold level of 3% to 5% gross revenue. Schools recommended that a distributor spend between 2% and 4% of its distribution revenues on CDM in 2006, including its 3rd tranche commitment.

Hydro One stated that the Board should set a “reference funding level” based on CDM experience in Ontario and other jurisdictions, along with input from the OPA, the Independent Electricity System Operator and other stakeholders. Energy Probe submitted that because there will be substantial CDM activity in 2006 due to 3rd tranche programs, the Board should not set a specific requirement for spending. Energy Probe and the PWU recommended that the Board should allow each distributor to determine its CDM budget level according to its own circumstance. VECC recommended that the Board place limits on total expenditures per MWh of projected energy distributed over the 2006-2010 period with budgets based on avoided cost and Rate Impact Measure (RIM) Test. VECC suggested that the RIM test be applied in addition to the TRC test to determine the rate impact of the overall CDM expenditures at rate class or sectoral level.

Conclusions

Most parties submitted that there should be no mandatory minimum expenditure target. The Board agrees that mandating spending is not appropriate, as distributors have already made commitments for a three-year period. However, the question remains whether there should be a range of permissible spending above that commitment and whether that level should be defined.

It is difficult to define with precision the optimum level of spending on CDM. The starting point in this discussion is the government’s commitment to “reduce peak

electricity demand growth in Ontario by five percent by 2007”². By any analysis, that is a very ambitious goal. Until recently, there was minimal spending on conservation activities in the Ontario electricity sector. The Board recognizes the importance of conservation. Even a reduction in consumption of 1% offers important cost savings. High commodity costs in this sector are driven by peak demands. At peak, the cost of purchasing electricity increases dramatically. To the extent that peaks can be reduced, significant savings should result.

Whatever the level of spending, it is important that any spending over 3rd tranche levels be approved on the basis of more stringent testing of costs and benefits. This is in line with the Board’s legislated objective in this area, which is “to promote economic efficiency and cost effectiveness in the ...demand management of electricity...” The Board is committed to providing a Conservation Manual that will define the cost benefit test and include the input assumptions related to energy savings for different programs and the avoided costs or value of the reduced consumption.

The other consideration in setting expenditure targets is rate impact. In the long run, if the CDM programs result in reduced consumption and cost savings, the total amount of the customer’s bill should decrease. This will be the case even in the situation where there is a shareholder incentive mechanism. In the short term, however, costs will be incurred and may increase rates to customers. The benefits from CDM spending will accrue to customers over time.

The Board concludes that it is appropriate for Ontario’s distributors to continue with their existing commitments, but that a specific target for 2006 is not appropriate. A distributor may apply for approval of additional spending (above the 3rd tranche) as part of its 2006 distribution rate applications, but this spending must meet the Total Resource Cost test established in the Board’s Conservation Manual.

² Ontario Ministry of Energy News Release. McGuinty Government Appoints Ontario's First Chief Energy Conservation Officer - Peter Love To Help Build A Conservation Culture Across Ontario. 20 April, 2005.