

Ontario Energy Board
EB-2007-0097

Board Staff Report

Stakeholder Consultations on Conservation and
Demand Management

July 27, 2007

A. PURPOSE

Throughout April and May 2007, staff of the Ontario Energy Board (the “Board”) held a number of meetings across the province to discuss conservation and demand management (“CDM”) and, in particular, regulatory barriers to CDM. The purpose of this Report is to provide interested parties with a summary of the issues raised in those meetings, and with Board staff’s comments on these issues.

B. INTRODUCTION

Over the past few years the Board has worked with stakeholders to identify and remove regulatory barriers to CDM, to the extent possible within the scope of the Board’s mandate on this issue. The purpose of the meetings held throughout April and May 2007 was to provide information about the Board’s regulatory framework for CDM, and to consult further with stakeholders to identify if there are remaining regulatory barriers within the control of the Board that need to be addressed.

These meetings were announced by letters dated March 28, 2007 and March 30, 2007, which were posted, along with a schedule of meetings, on the Board’s website. The meetings are a part of, and will inform, a larger work program that the Board has initiated that will include updating avoided cost data and input assumptions and measures in the Board’s Total Resource Cost Guide (“TRC Guide”), developing third generation incentive regulation (“3rd Generation IRM”), and reviewing the design of electricity distribution rates.

Distributor CDM activities are funded from two sources. The first is through distribution rates. The second is the Ontario Power Authority (“OPA”). On July 13, 2006, the Minister of Energy issued a directive to the OPA instructing it to organize the delivery and funding of CDM programs through Ontario distributors (the “Directive”). The Directive established a three-year fund of up to \$400 million (“Distributor CDM Fund”). Under the model laid out in the Directive, distributors would contract with the OPA for delivery of CDM programs.

The Board’s regulatory framework for CDM activities by electricity distributors in 2007 and beyond is set out in the March 2, 2007 *Report of the Board on the Regulatory Framework for Conservation and Demand Management by Ontario Electricity Distributors in 2007 and Beyond* (“the Framework Report”). The Framework Report sets out the framework in relation to: sources of funding, revenue protection, incentive mechanisms, cost and revenue allocation, program evaluation, and program reporting requirements. The framework addresses participation by electricity distributors in CDM programs administered by the OPA, as well as programs funded through distribution rates.

C. ATTENDANCE AT THE MEETINGS

Ten meetings were held between April 24, 2007 and May 31, 2007 in the following cities: Barrie, Chatham, Guelph, London, Ottawa, Niagara Falls, Sudbury, Thunder Bay, Toronto, and Whitby. A copy of the presentation given by Board staff at each of the meetings is attached as Appendix A. In addition, Board staff made the same presentation to a meeting of the Electricity Distributors Association's ("EDA") CDM Caucus.

All of the meetings were open to all interested parties, with the exception of the meeting with the EDA. There was an average of 7 participants at each meeting, excluding Board staff, with a high of 11 participants in attendance in Toronto, and a low of 4 participants in Sudbury. Participants included representatives of 31 electricity distributors, 2 gas utilities, 5 consumer or environmental groups, 2 government agencies, as well as a number of consultants. A complete list of organizations represented at the meetings is attached as Appendix B.

D. SUMMARY OF COMMENTS

The discussions at each of the stakeholder meetings generally focused on a need to clarify the regulatory rules applicable to electricity distributors in relation to their CDM activities, relating to both existing and future funding through distribution rates. As discussed in greater detail below, CDM funding was available through an increase in 2005 distribution rates by way of the third installment, or third tranche, of a distributor's incremental market adjusted revenue requirement ("MARR").

Stakeholders' comments suggested that greater clarity is needed in relation to the Board's application and review processes relating to CDM activities, to ongoing and future sources of CDM funding, and to the role of distributors in CDM. The discussions indicated that further clarification is required from not only the Board, but also from the OPA and the Government as a whole.

In the sections that follow, a summary is provided of the comments received during the meetings, organized by issue, and Board staff's comments on these issues. Where appropriate, some background information is provided about the issue in order to provide context.

The issues discussed below are:

1. LRAM and SSM recovery
2. Resourcing and planning
3. Total Resource Cost Guide and program evaluation
4. Audit & reporting
5. Board review and approval processes

6. Customer-related concerns
7. Funding of CDM activities through distribution rates
8. Ontario Power Authority processes

1. **LRAM and SSM Recovery**

Background

Electricity distributors have the option to apply to the Board for a Lost Revenue Adjustment Mechanism (“LRAM”) and/or a Shared Savings Mechanism (“SSM”) in relation to both CDM programs that were delivered under the third tranche funding mechanism and future CDM programs. The LRAM is intended to remove a disincentive for distributors to deliver conservation programs, by addressing revenue losses resulting from the reduced consumption of customers. The SSM is intended to encourage distributors to participate in the delivery of CDM programs.

In regards to LRAM, the Framework Report states, in part:

The Board has determined that the current form of LRAM will be available to distributors to address revenue erosion resulting from distributor CDM activities, regardless of whether the programs are funded by the OPA or through distribution rates. The LRAM will apply to programs implemented by the distributor, within its licensed service area, including programs delivered by the distributor itself and/or programs delivered for the distributor by a third party (via contract with the distributor, where the distributor has contracted with the OPA but has outsourced CDM program delivery to a third party).¹

In regards to SSM, the Framework Report states, in part:

The Board has determined that an incentive mechanism for CDM activities funded through distribution rates will continue to be available to distributors, and that this mechanism will be consistent with the model currently in place.²

The SSM is determined as 5% of the net savings of a CDM program, as established by the Total Resource Cost (“TRC”) test, and applies only to expenditures on the customer-side (such as efficiency improvements in the use of electricity) and not to utility-side expenditures such as distribution system improvement projects.

¹ Ontario Energy Board, *Report of the Board on the Regulatory Framework for Conservation and Demand Management by Ontario Electricity Distributors in 2007 and Beyond*, March 2, 2007. p. 9–10.

² Ontario Energy Board, *Report of the Board on the Regulatory Framework for Conservation and Demand Management by Ontario Electricity Distributors in 2007 and Beyond*, March 2, 2007. p.13.

Stakeholder Comments

In a number of the meetings, participants indicated that the application process and filing requirements for LRAM and SSM recovery are not clear, and that there is also uncertainty as to the Board's intended review process for such applications.

As a result of this uncertainty, participants expressed concern as to whether the effort involved in preparing and defending a claim would be worthwhile in terms of the amounts likely to be recovered. Many participants said that they would be closely watching the Board's review of the LRAM and SSM application filed by Toronto Hydro-Electric System Ltd.³ in March 2007, to assess whether they too would file an application in future.

Participants also indicated that there is uncertainty as to the timing of LRAM recovery, and whether there is a deadline for filing. During the meetings, Board staff clarified that there is no filing deadline, and that distributors should be guided by the Board's *Filing Requirements for Transmission and Distribution Applications*, issued on November 14, 2006.

A number of distributors also expressed concern about whether they would be eligible for LRAM in relation to their participation in certain OPA programs, given a minimal level of distributor involvement in program delivery. During the meetings, Board staff clarified that distributors should be guided by the rules regarding the attribution of benefits, as set out in the Board's TRC Guide. A related concern was that the current form of LRAM is only available for programs that the distributors participate in, but does not address potential revenue losses resulting from CDM activities undertaken by third parties within a distributor's licensed service area. In response to these comments, Board staff reminded participants of the Board's position on this issue, as set out in the Framework Report:

The Board has also determined that consideration of alternative mechanisms to address lost revenue due to changes in electricity consumption, including those resulting from all forms of conservation, should be considered as part of the process to develop 3rd Generation IRM and/or during the Board's review of options for the fundamental redesign of electricity distribution rates. These processes will provide the opportunity to explore parties' concerns about the potential revenue impacts on distributors of CDM activities undertaken by third parties.⁴

In the Framework Report the Board also committed to review incentive mechanisms for CDM as part of the process to develop 3rd Generation IRM and/or during the Board's review of options for the fundamental redesign of electricity distribution rates.

³ Information about Toronto Hydro's application (proceeding EB-2007-0096) is available on the Board's website: www.oeb.gov.on.ca.

⁴ Ontario Energy Board, *Report of the Board on the Regulatory Framework for Conservation and Demand Management by Ontario Electricity Distributors in 2007 and Beyond*, March 2, 2007. p.10.

Although most of the comments focused on the LRAM, there were also a few comments regarding SSM. Specifically, there was a suggestion that the current SSM, is an insufficient incentive for smaller distributors, due to the costs involved in applying for, and defending, a claim. Interestingly, however, a participant noted that the motivation for many municipally-owned distributors to deliver CDM programs is not the financial incentive, but rather helping customers and the community.

There was also a suggestion for how the Board could improve the application process for LRAM and SSM recovery. A participant proposed that the Board consider different filing requirements based on a pre-determined threshold. The threshold could be based on the size of the claim or the size of the distributor, and claims below the threshold would have simplified filing requirements. This could make it more economical for smaller distributors to apply for LRAM and SSM recovery.

Board Staff Comments

Board staff notes that, in the Framework Report, the Board committed to review LRAM and SSM recovery as part of its 3rd Generation IRM development work. Staff anticipates that details of that consultation process will be announced in the near future.

Board staff also notes that the proceeding to consider Toronto Hydro's application for recovery of LRAM and SSM is also currently underway, and that further direction on LRAM and SSM recovery in general may be provided as a result of that proceeding.

Regarding distributors' concerns about the application process for LRAM and SSM recovery, Board staff's comments on this issue are outlined below in section 5 of this Report.

2. Resourcing and Planning

Stakeholder Comments

A common theme among comments received at all of the meetings was the ability of distributors to manage the resources required for participation in CDM program delivery. Smaller distributors found this to be a particular concern. Since such distributors are typically unable to employ staff dedicated exclusively to CDM activities, the same staff is often assigned to both CDM activities and the distributor's core distribution activities.

One of the common reasons for difficulties with planning and resourcing cited by distributors of all sizes is uncertainty about future sources of funding. Many distributors noted that they perceive the current OPA model, whereby distributors would contract with the OPA to deliver OPA-designed programs, to be short-term in nature. Distributors felt that it was difficult to properly manage and plan resources without knowing with

certainty whether or not resources would be needed to participate in OPA-funded CDM activities beyond one year.

Distributors also expressed a general concern that there was uncertainty as to the future sources of funding for CDM, whether there is a future role for electricity distributors in the delivery of programs and what the distributors' role might be in relation to CDM (specifically, whether CDM is simply part of a distributor's overall service delivery to customers, or whether it is an added function).

It was also noted that the short-term nature of current CDM processes affect customer participation in programs. This is a particular problem for commercial and industrial customers, who often must first go through their internal management approval processes before enrolling in a distributor's CDM program. In cases where those business cycles are not coincident with the distributor's CDM funding cycle, the distributor may have ended the program and/or exhausted its funding for the program before the customer has the necessary approval to participate.

Stakeholders agreed that multi-year funding would allow for better long-term planning for both distributors and customers. It was also suggested that planning could be facilitated if the OPA were to announce its programs at least one year in advance. One distributor suggested that the need for customers to make quick decisions about whether to participate in a CDM program may hinder the development of a conservation culture. However, one distributor noted that sometimes short-term programs are actually necessary to prompt customers to participate, rather than delaying participation until a future period.

There was also general agreement among distributors that a database, or consolidation of the lessons learned by distributors relating to program design and delivery, would be helpful to distributors as they design programs in the future. There was, however, no general consensus expressed by distributors as to the role proposed for the Board in this regard.

Another difficulty noted by some distributors, especially those without in-house CDM expertise, is a shortage of expert consultants in the industry.

Board Staff Comments

As noted in section 3 below, the Board has asked staff to commence preparing materials in anticipation of the initiation of a consultative process that will examine, among other things, the potential for multi-year funding for CDM programs.

3. TRC Guide and Program Evaluation

Background

In September 2005, following consultations with stakeholders, the Board issued the TRC Guide. The TRC Guide provides assistance to distributors in preparing the cost benefit analysis that is required in relation to CDM funding applications and annual reports.

The TRC Guide consists of two elements:

- An explanatory document for undertaking TRC cost effectiveness analyses, including supporting information, specific direction on key issues, and the mathematical formulae and recommendations related to data requirements and collection techniques; and
- A detailed Assumptions and Measures List that provides all requisite TRC input data for a selection of over 100 measures. This list covers a range of typical CDM activities/technologies in residential, commercial and industrial applications.

Stakeholder Comments

Comments varied on the technical level of difficulty of the TRC Guide. Some stakeholders said it was “just right”, while others reported that the TRC Guide is difficult to understand. Some distributors commented that they have a high turnover of staff, and it is difficult to explain to new staff the intricacies of the TRC Guide. A distributor also noted that it the TRC Guide was difficult to explain to executives of the company.

There was general agreement that the TRC test is an appropriate guiding principle for analyzing the costs and benefits of CDM programs, but that the avoided cost and savings assumptions data needs to be updated to facilitate more cost effective CDM programs, and to include new technologies being used. There were several suggestions for how this data could be improved:

- Region-specific avoided costs, which may result in CDM programs being more cost effective in certain areas of the province than others;
- Extending the avoided cost data beyond 20 years;
- Recognition that some areas of the province are winter peaking;
- Recognition/inclusion of rebound effects (i.e. a customer installs a compact fluorescent lightbulb but is now leaving lights on longer); and
- Expand the scope of energy savings associated with measures, to account for indirect savings. For example, a fridge retirement program may result in energy inefficient fridges being removed, and also speed up consumer buying habits of energy efficient products. Similarly, replacing incandescent lightbulbs with compact fluorescent lightbulbs may reduce air conditioner use, since compact fluorescent lightbulbs generally give off less heat.

There was also a suggestion that the Board might consider adopting other cost effectiveness tests for screening CDM programs, in addition to the TRC test. Some concern was expressed that use of the TRC test to screen programs, and the Board's requirement that programs pass the TRC test, has meant that some potentially beneficial programs are not being implemented. Examples put forward of such programs are those focusing on consumer education, seniors, and social housing.

In addition to the suggestions for improving the input data noted above, stakeholders made a number of suggestions for how program evaluation could be further facilitated:

- The TRC Guide should include more sample calculations, and these samples should be very detailed.
- A database or compilation of successful CDM programs should be available to assist distributors with program design.
- A tool to calculate TRC should be available. This could be a web-based tool, or simply an Excel spreadsheet.

There was general agreement that any update to the TRC Guide should be done through a public process that includes stakeholder consultation.

Board Staff Comments

As noted above, the Board has asked staff to commence preparing materials in anticipation of the initiation of a consultative process that will examine a number of policy issues relating to the implementation of CDM activities that are funded through distribution rates. The starting point for this project will be the Board's TRC Guide, which will likely be updated and expanded based on the results of the consultations.

Further information regarding this project will be forthcoming. For the time being, however, staff has identified the following as issues warranting examination:

- Multi-year funding for CDM programs.
- Process and timing for submitting CDM plans, and recovery of spending through rates.
- Whether distributors should be required to undertake market transformation programs, and if so, how this would work.
- Process and rules for amending an approved CDM plan.
- Improvements in evaluation and verification protocols to allow distributors to learn from their experience, but to also limit the subjective nature and scope of the evaluation process.
- Updating avoided costs.
- Updating input assumptions and measures list to include, for example, new technologies.

Board staff will be exploring options for coordination with the OPA on the development of the updated avoided cost and savings assumptions data for use by distributors.

4. Audit and Reporting

Background

Distributors are required to apply a fully-allocated costing methodology to CDM activities, regardless of the funding source. This is reflected in the Framework Report, which states, in part:

The Board has determined that distributors must use a fully allocated costing methodology for all distributor-delivered CDM activities. Capitalized assets associated with distribution rate funded CDM activities will be included in rate base, and will be treated in the same manner as distribution assets. Assets purchased with funds from the OPA will not be eligible for inclusion in rate base, nor any ongoing operating costs associated with the asset. Distributors should include the full cost of assets, including ongoing operating costs, in the OPA program budget.

The Board notes the comments made in support of marginal costing, but is of the opinion that the basic ratemaking principle of preventing cross subsidization must be upheld, and that fully allocated costing is the most appropriate method to achieve this.

Where the funding is coming from the OPA, the separation in costs will appropriately establish distribution rates. Where the funding would be from the distributor's rates, fully allocated costing will ensure that the CDM programs are cost effective. Consistent with the separation of costs, the Board has also determined that any penalties imposed on distributors by the OPA would not be eligible for recovery through distribution rates.⁵

Stakeholder Comments

The majority of comments related to audit and reporting requirements, and more specifically on two issues.

First, a few distributors requested further clarification as to how distributors should track and record revenues and expenditures associated with OPA-funded CDM activities. Further, it was requested that the Board authorize an account to track the OPA-funded CDM revenues and expenditures, as the Board did for third tranche CDM spending.

⁵ Ontario Energy Board, *Report of the Board on the Regulatory Framework for Conservation and Demand Management by Ontario Electricity Distributors in 2007 and Beyond*, March 2, 2007. p.15-16.

Second, a number of distributors expressed concern as to how costs associated with OPA-funded CDM activities will be removed from distribution rates, as required under fully-allocated costing. Distributors noted that some resources, such as staff, will be shared between the distribution business and the delivery of OPA-funded CDM programs. The costs associated with some of these employees may be currently included in distribution rates. Distributors expressed uncertainty as to how to track these costs so that they could later be removed from rates.

During the meetings, Board staff clarified that these costs will be removed at the time of rebasing, which will occur over the next several years. Further, the costs would only be removed on a forward-looking basis. While this appeared to provide some of the desired clarification, a distributor whose rates are scheduled to be rebased in the first rebasing group noted that it may be difficult to forecast costs associated with OPA-funded CDM activities, and therefore those to be removed from distribution rates, given uncertainties regarding the distributor's future relationship with the OPA.

Board Staff Comments

On July 23, 2007, the Board's Regulatory Audit section issued a "Frequently Asked Questions" document that provides guidance to distributors regarding the appropriate accounting treatment of OPA-funded CDM program related transactions. This guidance includes the provision of accounts in the Uniform System of Accounts to record these transactions, which have been classified as non-distribution in nature for rate-setting purposes. Board staff will also be reviewing a number of issues relating to the OPA's CDM programs to determine whether further guidance is needed.

5. Board Review and Approval Processes

Background

On May 31, 2004, the Minister of Energy granted approval to all distributors in Ontario to apply to the Board for an increase in their 2005 rates by way of the third installment of their incremental MARR. This approval was conditional upon a commitment to reinvest in CDM an equivalent of one year's return. Consequently, in 2005 distributors brought forward, and the Board approved, \$163 million in CDM funding for distributors, an amount related to the third tranche of their MARR. As part of the third tranche funding framework, distributors are allowed to re-allocate funds between CDM programs within their Board-approved CDM plan, subject to certain requirements. Specifically, if cumulative fund transfers among programs exceeds 20% of the approved budget, distributors are required to apply to the Board for approval.

The Board subsequently provided processes for distributors to apply for additional funding as part of the 2006 and 2007 distribution rate adjustment processes. The application process and filing requirements for 2007 CDM funding were outlined in a letter issued by the Board on March 1, 2007.

The Board's framework in relation to future funding is set out in the Framework Report, which confirms that distributors may continue to apply to the Board for funding through distribution rates for CDM activities. The Framework Report states, in part:

The Board will continue to receive applications for funding through distribution rates for programs designed to address local reliability or system improvement situations.

As funding from the OPA becomes available for all other types of programs, the Board expects that distributors will apply to the OPA for funding. However, where funding is not available from the OPA at the time of application, distributors may apply to the Board for funding through distribution rates. The Board will coordinate with the OPA to ensure that there is no duplication of funding.⁶

Stakeholder Comments

Distributors have indicated that the Board's requirements and processes for both existing third tranche funding and future funding collected through rates for 2007 or subsequent years are unclear. Many stakeholders also reported that the Board's application processes are too long and burdensome, due in large part to the informational requirements.

One distributor reported that it ended a successful CDM program earlier than planned, because it had exhausted the approved funding for that program, and was unsure about the process and requirements to re-allocate funds to the program.

A number of distributors requested clarification on the rules for re-allocating third tranche funds between CDM programs, and more specifically on the following:

- How the 20% threshold is determined (is it 20% of the program budget or 20% of the total approved budget?).
- Filing requirements and the Board's review process for applications for approval to re-allocate funds.
- The approximate time for completion of the Board's review of an application to re-allocate funds.

In addition to the rules regarding the re-allocation of third tranche funding, distributors were unclear about, and in some cases unaware of, the process for requesting an extension of time to spend third tranche funding beyond the current deadline of September 30, 2007. Distributors requested clarification on the filing requirements and any deadlines for such an application.

⁶ Ontario Energy Board, *Report of the Board on the Regulatory Framework for Conservation and Demand Management by Ontario Electricity Distributors in 2007 and Beyond*, March 2, 2007. p.7.

In the meetings, Board staff clarified for stakeholders the filing requirements and Board processes relating to both the re-allocation and the extension of third tranche funding. Distributors also requested clarification as to the types of programs for which funding through distribution rates will be available in 2007 and beyond.

A number of stakeholders suggested that the Board should implement more streamlined approval processes, which could include one or more of the following elements:

- Automatic approval of CDM spending that is less than or equal to 2% of a distributor's annual commodity and distribution revenue. Alternatively, automatic approval of CDM spending for certain "core competencies", outside of which program-specific approval would be required.
- No requirement for pre-approval of programs, and no program-by-program review of CDM plans.
- Automatic recovery of costs for programs that pass the TRC test.
- Flexibility to re-allocate funds between programs without a requirement for Board approval.
- Allow Board staff or a delegated authority to approve applications.
- Multi-year funding.

While many distributors agreed that it would be less burdensome if there were no requirement for pre-approval of CDM programs, they also acknowledged that this may increase the distributor's risk, particularly in the context of a claim for LRAM or SSM recovery. The distributors were unsure if they would be willing to accept the risk that the Board may determine, at the time of the LRAM or SSM claim, that a particular program was not cost effective, or was not considered a "CDM" program. One stakeholder, however, suggested that this problem could be overcome if distributors had the option, but were not required, to apply to the Board for pre-approval of programs, as they did for programs that were part of the third tranche funding mechanism.

Board Staff Comments

Board staff believe that a set of "Frequently Asked Questions" may be helpful to stakeholders to address a number of the process-related issues that were raised at the meetings. These "Frequently Asked Questions" could provide distributors with additional information on:

- Application and review process for LRAM and SSM applications.
- Application and review process relating to funding re-allocations that exceed the 20% threshold.
- How and when costs relating to OPA-funded CDM activities will be removed from distribution rates, as required under fully allocated costing.

Board staff also believe that some changes to the Board's CDM webpage could usefully be made to improve the availability and organization of information on that page.

Board staff will explore the potential for undertaking, and the timing of, these initiatives.

6. Customer-Related Concerns

Stakeholder Comments

Some stakeholders commented on access by customers to CDM programs and CDM funding, and the actions needed in order to better engage customers and develop a “culture of conservation”. There was, however, no general agreement expressed by participants on the Board’s role in this regard.

It was suggested that more planning is needed to engage industrial customers, since these customers typically want a short-term payback (2 years or less) on any investments in CDM-related actions. One distributor noted that, in northern areas of the province, it is very difficult to spend capital on programs that do not have a demonstrable return.

Communication to customers was also a common theme. There was general agreement that clear and consistent messaging to consumers is needed. A few distributors noted that communications to customers should include a discussion of the costs of CDM, and the resulting long-term benefits. These distributors noted that customers are often concerned that their rates are increasing, and look to the distributor for explanation. One distributor also suggested that the environmental benefits of participating in CDM activities should be emphasized, since the financial benefits that might occur through bill savings do not engage some customers.

It was also noted by many distributors that the transition to the OPA of the responsibility for coordinating the funding and delivery of CDM programs has confused customers, and that customers are unsure as to who is now providing and funding programs. One distributor reported that customers have contacted it to inquire about accessing OPA funding or OPA programs, which can place the distributor in the position of having to participate in the OPA’s processes in order to provide the program to the customer. It was also reported by distributors that larger customers would prefer to contract directly with the OPA, rather than receiving programs from the distributor.

Different views were expressed as to the role that the Board should play in communications to customers about CDM. Many participants suggested that the OPA or the Ministry of Energy should take the lead on such communications. However, it was also suggested that the Board could play an oversight or coordination role. One distributor suggested that since customers are unfamiliar with the Board, the Board should not be the entity conveying the message.

Board Staff Comments

Board staff is mindful of the importance of increasing consumer awareness regarding CDM, and of ensuring that customers understand the roles of the various participants in the CDM marketplace.

The Board provides information to customers on a regular basis, through its website, and through brochures that are included with customers' electricity bills from distributors. Clear and timely communications relating to the Board's decisions, initiatives and strategic focus help consumers make more informed decisions about their energy choices. Generally, the Board's communications to consumers focus on electricity and natural gas rates and pricing, as well as on energy supply options.

Board staff notes that consumer awareness regarding CDM is a key activity of the OPA's Conservation Bureau. Board staff will continue to explore options for coordinating consumer communication efforts with other participants in the energy sector on CDM-related matters.

7. Funding of CDM Activities through Distribution Rates

Background

The Board has the following as one of its statutory objectives:

To promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and to facilitate the maintenance of a financially viable electricity industry.⁷

The Board also has a responsibility to set electricity distribution rates that are just and reasonable.⁸

In the context of CDM, when considering the funding of CDM programs through distribution rates, the Board has focused on the prudence of the CDM expenditures. The Board reviews spending levels and proposed programs and deals with reporting requirements and program evaluation. The Board has developed processes under which distributors have applied for third tranche funding through 2005 distribution rates and for additional funding through 2006 and 2007 distribution rates.

The application and review process for 2007 distribution rate funding for CDM was outlined in a letter that was issued by the Board on March 1, 2007. In order to ensure the continued delivery of CDM programs by distributors pending the more widespread availability of OPA-administered programs, the Board developed an expedited process,

⁷ *Ontario Energy Board Act, 1998*, section 1(1)2.

⁸ *Ontario Energy Board Act, 1998*, sections 78(2) and 78(3).

which included simplified filing requirements for distributors wishing to extend existing CDM programs that were originally funded under the third tranche mechanism.

Stakeholder Comments

The majority of distributors in attendance at the meetings seemed appreciative of the Board's actions to put in place a funding mechanism for 2007, but indicated that there is a general reluctance among distributors to fund future CDM programs through distribution rates. The reason cited for this reluctance was a desire to avoid customer concerns associated with increases in distribution rates.

Distributors reported that their preference was to seek funding from the OPA.

Only one stakeholder suggested that the Board needs to actively encourage distributors to apply to the Board for funding through distribution rates for CDM activities.

Board Staff Comments

As noted above, the expectation of the Board as set out in the Framework Report is that upon implementation by the OPA of the Distributor CDM Fund, most CDM funding for distributors will be provided by the OPA, either through the Fund or other OPA procurement processes. As funding from the OPA becomes available for all types of programs, it is expected that distributors will apply to the OPA for funding. However, where funding is not available from the OPA at the time of application, funding through distribution rates will continue to be available to distributors, should they choose that funding mechanism.

8. Ontario Power Authority Processes

Board Staff Comments

The purpose of the consultations was to identify regulatory barriers to CDM that are within the Board's control, and actions that the Board could consider with a view to reducing those barriers. At the meetings, stakeholders commented on various aspects of the OPA's CDM program, and Board staff has shared these comments with the OPA.

E. CONCLUSION

As noted in the introduction, the stakeholder meetings held throughout April and May 2007 are a part of, and will inform, a larger work program being undertaken by the Board. Many of the issues raised by stakeholders during the meetings have already been identified by the Board and included within the scope of initiatives that are either planned or in progress. New issues identified by stakeholders during the meetings

have been noted and will be the subject of further consideration and follow-up by Board staff, as appropriate.

Board staff would like to thank all stakeholders who attended the meetings for their thoughtful and informative comments. Board staff would also like to thank the following distributors who hosted a meeting and/or assisted Board staff with arranging a meeting location: Barrie Hydro Distribution Inc., Greater Sudbury Hydro Inc., Guelph Hydro Electric Systems Inc., Hydro Ottawa Ltd., London Hydro Inc., Niagara Falls Hydro Inc., Thunder Bay Hydro Electricity Distribution Inc., Whitby Hydro Electric Corp. and Union Gas.

APPENDIX A
Board Staff Presentation



Ontario Energy Board

Commission de l'énergie de l'Ontario

**Conservation and Demand Management by
Electricity Distributors**

Dialogue on CDM Issues

Presentation Outline & Agenda

1. What is CDM?
2. CDM in 2005 – 2007
3. CDM in 2007 and beyond
4. The Board's role in CDM in 2007 and beyond
5. The regulatory framework for CDM
6. 2007 funding application process
7. Future work – CDM Manual
8. Improving CDM processes – examples
9. Questions for discussion – Open discussion of issues.



What is CDM?

- **Conservation behaviour** – using less electricity.
- **Energy efficiency** – more efficient use of electricity, including standards under the *Energy Efficiency Act* and the Building Code.
- **Demand management** – reducing peak demand.
- **Fuel switching** – switching to another fuel source (i.e. natural gas).
- **Distributed generation** - Self-, co- and tri-generation, geothermal heating and cooling, load displacement, net metering, and solar, wind and biomass systems.



CDM in 2005 - 2007

- Minister granted approval in May 2004 for LDCs to apply to the Board for recovery of 3rd tranche of MARR ***conditional upon an equivalent amount being spent on CDM.***
- The Board approved \$163 million in CDM funding related to 3rd tranche recovery in 2005 rates.
- 8 LDCs were granted a collective total of approx. \$3 million in incremental CDM funding through 2006 distribution rates.
- LDCs must report to the Board on the progress of CDM programs quarterly & annually for 3rd tranche funding, and annually for 2006 incremental funding.



CDM in 2007 and Beyond

- On July 13, 2006, the Minister of Energy issued a Directive to the OPA to assume responsibility to coordinate and fund the delivery of electricity CDM programs by LDCs in Ontario.
- Funding of up to \$400 million over 3 years will be available to LDCs, collected under the Global Adjustment Mechanism (the “LDC CDM Fund”). Funding cannot be used for smart meters.
- LDCs will contract with the OPA to deliver OPA-designed standard programs (“Programs In A Box”), and LDC-designed custom programs.
- The OPA must ensure adequate provincial coverage of CDM programs.
- The OPA will begin accepting applications early April.



The Board's Role in 2007 and Beyond

For Distribution Rate Funded CDM:

- Ensure customer value for CDM expenditures through review and approval in rates of program expenditures.
- Review program effectiveness and revenue protection claims.
- Ratemaking matters associated with LDC delivered CDM.
- Oversight of compliance/conduct matters arising from LDC involvement in CDM.

For OPA Funded CDM:

- Review and approval of the IPSP
- Review and approval of LDC revenue protection claims.



The Regulatory Framework for CDM in 2007 and Beyond

- March 2, 2007 – Following written consultation with stakeholders, the Board issued its Report of the Board on the Regulatory Treatment of CDM in 2007 and Beyond. Key points include:
 - Funding through distribution rates available for programs that address local issues, or any other program for which no OPA funding is available (until such time as OPA funding becomes available.)
 - Revenue protection (LRAM) available in relation to programs implemented by distributors within their licensed service area, regardless of funding source.
 - Incentive mechanism for distribution rate funded CDM activities only, based on current model (5% of TRC). The OPA will be free to design incentives for programs it funds.
 - Alternatives to both LRAM and SSM to be reviewed as part of the work to develop 3rd Generation IRM, and the Board's review of distribution rate design.



The Regulatory Framework for CDM in 2007 and Beyond Cont.

- Key points cont.:
 - Fully allocated costing. Appendix A of the Report provides guidelines for the application of this costing methodology to assist distributors.
 - Full separation of revenues between distributors' CDM and distribution activities, allowing shareholders to retain any revenues earned.
 - Third party review of program results required.
 - Reporting requirements for OPA funded programs limited to information needed to assess an LRAM claim.
 - Annual reporting requirements for distribution rate funded programs, based on current requirements in place for 3rd tranche and 2006 funding.



2007 Funding Application Process

- March 1, 2007 – the Board issued a letter outlining the application process for 2007 incremental funding. Key points:
 - 2007 incremental funding runs until April 30, 2008.
 - Expedited process to continue existing 3rd tranche programs, and simplified filing requirements. Distributors must file:
 - Budget forecast
 - TRC analysis, identical to that used for 2006 reporting requirement.
 - Allocation of costs to customer classes and class-specific rate adder.
 - To minimize duplication, the Board does not intend to allow funding for programs that are the same or substantively the same as those offered by the OPA.



2007 Funding Application Process Cont.

- Key points cont.:
 - Funding requests received before March 23 will be included in 2007 rates for May 1, but spending booked in a variance account. A hearing will follow. If approved, variance account closed.
 - Funding requests received after March 23 still to be reviewed expeditiously, but may not be included in May 1 rates.
 - Distributors may also apply for funding for new programs, provided that they are not the same or substantively the same as those offered by the OPA.
 - Applications must be in accordance with the Board's November 2006 Filing Requirements.
 - Applications will be processed in the normal course (not expedited, due to greater level of review required).



Future Work – CDM Manual

- The Board plans to develop a CDM Manual, which will be an update and expansion of the TRC Guide. Development of the Manual will include a review of a number of issues, including:
 - Whether the Board should allow multi-year funding for CDM programs, and if so, what is the appropriate length of a program?
 - Process and timing for submitting CDM plans, and recovery of spending through rates.
 - Whether distributors should be required to undertake market transformation programs, and if so, how would this work?
 - Process and rules for amending an approved CDM plan.
 - Improvements of evaluation and verification protocols to allow distributors to learn from their experience, but to also limit the subjective nature and scope of the evaluation process.
 - An update of avoided costs.
 - An update of the input assumptions and measures list to include, at a minimum, new technologies.



Improving CDM Processes

- Over the past several years, the Board has initiated a number of steps to improve regulatory processes associated with CDM, including:
 - Developed the TRC Guide to assist LDCs with program evaluation.
 - Made available LRAM and SSM.
 - Reduced frequency of reporting, from quarterly and annual, to only annual.
 - Provided for an extension of 2007 incremental funding to April 2008 to address OPA funding gap.
 - Provided an expeditious process to apply for 2007 funding, to ensure funding included in May 1 rates.
 - Undertaking a review of distribution rate design.



Improving CDM Processes Cont.

- The Board has acted to remove barriers to generation, in order to facilitate the connection of embedded generation facilities, including:
 - Reduced fees for certain generation facilities.
 - Simplified licence application process for Standard Offer generators.
 - Developed a “plain language” Standard Offer Program website.
 - Amended the Distribution System Code:
 - To require distributors to provide a contact person and information about their distribution system upon request.
 - To include a standard form connection agreement for small and mid-sized generators.
 - To establish timelines for the queuing process and offer to connect.
 - Amended the Retail Settlement Code to address settlement requirements.
 - Amended the Reporting and Record Keeping Requirements to require distributors to maintain records on applications for connection of embedded generation facilities.



Questions for Discussion

1. The Board has provided guidance to distributors with respect to the application process for funding through distribution rates, with the November 2006 Filing Requirements, and the March 1, 2007 letter. Are there any remaining issues that need to be clarified regarding the application process?
2. How does the regulatory framework help or hinder distributors' evaluation of CDM programs, ability to learn from experience, and improve programs? How could evaluation protocols be improved to enhance the ability of distributors to learn from their experiences?
3. Are there any additional ways in which the Board's regulatory framework for CDM could further support consumers' access to, and participation in, distributor-delivered CDM programs?
4. How would multi-year funding through distribution rates affect the development of CDM programs? What would be the appropriate length of such a plan?



Questions for Discussion Cont.

5. For third tranche programs, distributors are required to apply to the Board for approval to re-allocate funds exceeding 20% of the approved budget. Are there any ways that this application process could be improved to facilitate re-allocation of funding to cost effective programs in a timely and efficient manner?
6. With the TRC Guide, the Board provided distributors with avoided cost data and input assumptions and measures to facilitate cost effectiveness analyses of CDM programs. Is there any additional data and/or information that would aid with program screening and evaluation?
7. Are there any other ways in which the Board's regulatory framework could further facilitate CDM?



Meeting Schedule

DATE	TIME	LOCATION
April 24, 2007	1:30 – 4:00	Chatham
April 25, 2007	9:00 – 11:30	London
April 25, 2007	2:00 – 4:30	Guelph
May 1, 2007	1:00 – 3:30	Sudbury
May 2, 2007	9:00 – 11:30	Thunder Bay
May 10, 2007	9:30 – 12:00	Ottawa
May 15, 2007	1:00 – 3:30	Niagara Falls
May 17, 2007	1:30 – 4:00	Barrie
May 24, 2007	9:30 – 12:00	Whitby
May 31, 2007	1:30 – 5:00	Toronto



Further Questions?

Contact the Board's Market Operations hotline at:

EMAIL: market.operations@oeb.gov.on.ca

PHONE: 416-440-7604
 1-888-632-6273 (main switchboard)



APPENDIX B

Meeting Participants

ELECTRICITY DISTRIBUTORS

- Atikokan Hydro Inc.
- Barrie Hydro Distribution Inc.
- Bluewater Power Distribution Corp.
- Brantford Power Inc.
- Burlington Hydro Inc.
- Canadian Niagara Power Inc.
- Chatham-Kent Hydro Inc.
- Enersource Hydro Mississauga Inc.
- Erie Thames Powerlines Corp.
- Greater Sudbury Hydro Inc.
- Grimsby Power Inc.
- Guelph Hydro Electric Systems Inc.
- Halton Hills Hydro Inc.
- Hydro Hawkesbury Inc.
- Hydro One Networks Inc.
- Hydro Ottawa Ltd.
- London Hydro Inc.
- Newmarket Hydro Ltd.
- Niagara Falls Hydro Inc.
- Norfolk Power Distribution Inc.
- Oshawa PUC Networks Inc.
- Peterborough Distribution Inc.
- PowerStream Inc.
- PUC Services Inc.
- Sioux Lookout Hydro Inc.
- St. Thomas Energy Inc.
- Thunder Bay Hydro Electricity Distribution Inc.
- Toronto Hydro-Electric System Ltd.
- Waterloo North Hydro Inc.
- Wellington North Power Inc.
- Whitby Hydro Electric Corp.

GAS UTILITIES

- Union Gas
- Enbridge Gas Distribution

GOVERNMENT AGENCIES

- Ministry of Energy
- Ontario Power Authority

CONSUMER OR ENVIRONMENTAL GROUPS

- Energy Probe
- Green Energy Coalition
- London Property Management Association
- Pollution Probe
- School Energy Coalition

OTHER

- Aladaco Consulting
- George Todd Consulting
- Marbek Resource Consultants
- RDI Consulting Inc.
- Rodan Energy & Metering
- Utilismart Corporation