March 4, 2008

Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St., Suite 2700
Toronto, ON, M4P 1E4

Re: Draft Guidelines for Electricity Distributor Conservation and Demand Management, EB-2008-0037

These comments are provided on behalf of Enersource Hydro Mississauga Inc., Horizon Utilities Corporation, Hydro Ottawa Limited, PowerStream Inc., Toronto Hydro-Electric System Limited and Veridian Connections Inc., collectively referred to as the Coalition of Large Distributors ("CLD").

General Comments

The CLD applauds the initiative by the Ontario Energy Board (the "Board") to outline its policies and guidelines on all aspects of CDM for electricity distributors in one document and appreciates the opportunity to provide comments. The CLD also welcomes the chance to design and introduce targeted, multi-year CDM programs for its customers, thereby building customer goodwill and working towards a culture of conservation.

As noted in the Draft Guidelines, "The Board expects that most CDM funding for distributors will be provided by the OPA…"[1]. While agreeing with this statement, the CLD appreciates the flexibility provided by the continued opportunity to fund CDM through distribution rates. However, it is important to the CLD that there continues to be ongoing coordination between the two funding sources, and it should be remembered that OPA supported CDM programs are funded through the commodity, which is the dominant driver for conservation; while LDC initiated CDM is funded through distribution rates.

Comments on Proposed New Policies

System improvement programs (section 2.1.1)

The Draft Guidelines state, "In the case of new infrastructure, or replacement of existing infrastructure, any measures to maximize the efficiency of the infrastructure will not be considered a CDM initiative."[2] There is some concern that this might restrict an LDC from proposing a system improvement project that incorporates some aspect of CDM within it. However, it is the CLD's understanding that an LDC can bring such a project forward in a cost of service rate application and consideration will be given to the lower 'total cost' of a project (which would include CDM benefits), and not just the initial (possibly higher) upfront cost.

[1] Draft Guidelines for Electricity Distributor Conservation and Demand Management, p. 4
[2] *Ibid*, p. 5

The CLD would welcome the opportunity to participate in the Board's planned process to develop "distributor asset management practices"[3], and to use these consultations to further refine the treatment and role of CDM projects within asset management planning.

Multi-year funding (section 2.2)

The CLD is pleased to see this change in policy, as it will provide some assurance of the ongoing availability of funds. The CLD assumes that if the OPA introduces a similar program for which multi-year funding has already been approved by the Board, an LDC will be allowed to choose whether to continue to deliver the program, as approved, or convert to the OPA program.

In the case where the budget for the year is not sufficient due to the success of a program, the Guide requires that an application be made to the Board. It is not clear if this is applicable only during the last year of the multi-year term. The CLD assumes that in cases other than for the last year, an LDC would be permitted to use part of the following year's budget, just as unspent amounts can be used in proceeding years in the case of slow customer uptake. It would be incumbent upon the distributor to ensure the approved program budget is not exceeded at the end of the term.

The CDM Guidelines should address the treatment of interest on the variance account under multi-year funding. The CLD assumes that the application of interest to variance accounts under multi-year funding would be consistent with other variance accounts approved by the Board. In addition, carrying costs on the LRAM amount should be addressed in consideration of the time between starting the program until the time the rate rider is collected for a multi-year program. It may be unreasonable for LDCs to wait until the end of a multi-year program to apply for LRAM and SSM recovery. It is also assumed that applications for LRAM/SSM do not have to be coincident with cost of service applications.

There continues to be a concern that the multi-year funding is still 'program' based, as is the OPA funding. This implies that there are no means of accessing 'core' or 'grassroots' CDM funding that would be used for ongoing stakeholder engagement, continuing education, development of programs or to fill in the 'grey areas' between programs. If the intention is for CDM to become a core business for electricity distributors and part of an LDC's corporate responsibilities, then the ability to apply for non-program specific funding is essential. Ideally this would be done as part of a normal rate application and CDM expenses would be an integral part of an LDC's OM&A expenses.

In the meantime, the CLD would interpret the requirements under Section 7.2.2 for Market Support Programs which are "…related to training, public outreach and the general provision of information on efficient energy use …"[4] as covering this grey area and may also include the cost of performing CDM related work such as providing the business infrastructure to identify opportunities, perform risk analysis and sensitivities, establish the evaluation process, etc.

[3] *Ibid*, p. 5
[4] *Ibid*, p. 26

Distribution and transmission losses (section 3.4.4)
The CLD agrees that it makes sense to include losses in the screening of programs and in the calculation of the TRC for SSM purposes, but not in the calculation of LRAM. Although the use of an average distribution loss factor is not ideal, as some distributors will have higher losses and some will have lower, the use of 4% is acceptable given the difficulty of determining an exact yearly loss factor. However, a higher distribution loss factor should be permitted if the distributor is able to demonstrate its validity.

Implementation of Updated Input Assumptions (section 7.3)
Clarity is required for the treatment of rate riders and the disposition of the variance account in the case of:

- changes to input assumptions in the middle of the program term,
- significant program revisions or early termination of the program due to poor performance.

Evaluation Report (section 7.4)
Although not marked as 'new' in the Draft Guidelines, the need for an independent third party evaluation for LRAM/SSM applications is a new requirement that the CLD assumes will be funded as part of the program cost. However, the CLD notes that the cost to engage an independent third party was not included in 2007 OPA funded programs nor for programs funded through distribution rates in 2007. In addition, LDCs are currently in the process of negotiating 2008 OPA funding and may not have included this additional requirement in their funding calculations. The CLD would propose that all programs, for which funding has already been approved at the time these guidelines come into effect, be grand parented with respect to the requirement for an independent third part verification.

In cases where an LDC has used assumptions published by the OPA or the OEB, it should be sufficient for the LDC to demonstrate that they have used those assumptions, rather than obtain a third party assessment.

The CLD would appreciate if the Draft Guidelines provided more details on what is required to confirm 'participation levels'. For example, it is assumed that proof of the number of coupons redeemed would be sufficient.

Other Comments

Cost Effectiveness (section 3.0 and Appendix A)
There should be a single TRC Guide for OEB and OPA programs, otherwise there will be inconsistency with respect to LRAM results. The CLD would propose that there be a single set of rules governing the TRC Guide and Measures List. The OEB should maintain financial governance of the TRC Guide. Also the Guide and Measures List both need to be updated at frequent periods to be maintained current and the Board's Guidelines need to address how this is to be done and by whom. In addition, the TRC guide should, where applicable, reflect the different load reductions for different regions in the Province. This is particularly relevant for heating and cooling system load reduction measures.

CDM Program Costs (section 3.3.2)
In the case of demand response programs, there is an ongoing operation cost, after the equipment and devices have been installed, to manage the demand response activities. This cost category should be identified, perhaps within the Administrative Costs category.

Lost Revenue Adjustment Mechanism (LRAM) (section 5.0)
A distributor should be permitted to claim LRAM compensation for any OPA-funded CDM program within its service area, regardless of whether the distributor participated in or is allowed to participate in the program. The aggregated kW and kWh savings information can be provided by the OPA to the distributor for calculating the lost revenue.

Program Funding through Distribution Rates (section 9.1)
The last bullet of point 2 states that an application should include "A discussion of whether the proposed initiative is similar to any currently offered by the OPA".[5] There should be some elaboration on what would constitute an adequate 'discussion' to show that there is no similar initiative currently offered by the OPA. It would be inefficient if the Board determines that the initiative should be funded by the OPA after the application has been duly reviewed and assessed by the Board.

Shared Savings Mechanism (SSM) (section 9.3)
The statement "…only where the costs of the initiatives are expensed"[6] requires clarification with an example of its meaning. Does this have a meaning related to an accounting class of expenditures such as OPEX and/or CAPEX? What is an example of costs that are not expensed?

Thank you for the opportunity to comment on these Board proposals. In addition to filing these comments electronically, two paper copies have been submitted, as required. If you have any questions, please do not hesitate to contact any of the undersigned.

Yours truly,

(Original signed on behalf of the CLD by)

Lynne Anderson
Director of Regulatory and Government Affairs
Hydro Ottawa

[5] *Ibid*, p. 34
[6] *Ibid*, p. 36

Lynne Anderson
Hydro Ottawa
(613) 738-5499 X527
lynneanderson@hydroottawa.com

George Armstrong
Veridian Connections
(905) 427- 9870 x2202
garmstrong@veridian.on.ca

Colin McLorg
Toronto Hydro
(416) 542-2513
regulatoryaffairs@torontohydro.com

Sarah Griffiths
PowerStream
(905) 417-6992
sarah.griffiths@powerstream.ca

Kathi Litt
Enersource Hydro Mississauga
(905) 283-4247
klitt@enersource.com

Cameron McKenzie
Horizon Utilities
(905) 317-4785
cameron.mckenzie@horizonutilities.com