Aiken & Associates
578 McNaughton Ave. West
Chatham, Ontario, N7L 4J6
Phone: (519) 351-8624
Fax: (519) 351-4331
E-mail: raiken@xcelco.on.ca

February 26, 2008

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
27th Floor
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: EB-2008-0037 – LPMA Comments on Draft Guidelines for Electricity Distributor Conservation and Demand Management

INTRODUCTION

These are the comments made on behalf of the London Property Management Association ("LPMA") on the Draft Guidelines for Electricity Distributor Conservation and Demand Management EB-2008-0037 dated February 8, 2008.

The remainder of this paper provides comments on the four specific issues identified in the Board's February 8, 2008 letter. Comments are also provided on some minor issues.

1. System Improvement Programs

LPMA agrees with the analysis and conclusions provided in Section 2.1.1 related to system improvement programs. The Board's expectation that maximizing the efficiency of the distribution system should be part of the prudent asset management practices of the distributors is in line with the LPMA expectations that all distributors should take prudent steps to manage their costs with reasonable diligence. These costs include distribution expenses, cost of capital, taxes and asset costs. Improving the efficiency of the system is one way that costs to ratepayers can be minimized.

The question has been posed as to whether or not sufficient direction has been provided to guide distributors in their asset management program. LPMA believes that the Board has clearly stated that any measures related to new or replacement infrastructure will not be considered a CDM initiative, but that maximizing efficiency of the system should be part of the prudent asset management practices and not considered "extra" or "optional". LPMA believes this is sufficient for the current Guidelines and notes that any of the details related to appropriate asset management practices will dealt with as part of the Board's 2008 – 2011 Business Plan.

2. Multi-Year Funding

LPMA is a supporter of multi-year funding for CDM. LPMA was a participant in the EB-2006-0021 Generic Demand Side Management proceeding in which a three year plan was approved for Union Gas and Enbridge Gas Distribution.

LPMA supports the plan as outlined in Section 2.2 of the Guidelines. In its letter of February 8, 2008, the Board posed two questions on multi-year funding on which it was seeking comments. The first question posed by the Board deals with the implications, if any, of the Board approving a three-year plan given the potential uncertainties regarding the OPA CDM activities for the same period.

LPMA submits that the potential uncertainties related to the OPA CDM activities over a three year period should not be of any significant concern to the Board or to distributors. CDM is a long term program and it is unlikely that government policy related to conservation and demand management would change significantly over a three year period. However, should this change and be reflected in significant changes to the OPA activities, LPMA submits that Board will be in a position to make any adjustments, if required, to the Guidelines. Further, a reduction in the OPA activities would likely signal a change in government priority and no change in the CDM activities of distributors would be required. If the OPA activity decrease was the result of a fundamental change in the funding and delivery of programs such as to expand the role of distributors, then a

fundamental review by the Board would be necessary. It would be hoped and expected that the OPA and/or the government would give the affected parties sufficient notice of such a fundamental change in policy so as to effectively continue CDM efforts through a transition period.

An increase in the OPA activities may make some of the approved distributor expenditures redundant, or it may provide the distributors with a source of funding other than distribution rates to finance them. LPMA believes that deferral and/or variance accounts that reflect the potential for non-rate funding would take care of this possibility. The draft Guidelines specify that spending will be tracked in a variance account (Section 2.2) which will be used to true-up any variances between the spending estimate built into rates for the year and the actual spending in that year. Section 4.3 of the draft Guidelines indicates that any OPA-funded CDM revenues would be part of the non-distribution activities of a utility. Thus, if a utility had an amount built into rates for CDM expenses that were subsequently funded by the OPA, there should a change in the accounting treatment of the associated expenses. From the ratepayer point of view, the expenses would be covered by the OPA and a credit would accrue to the customers through the variance account.

The second question posed by the Board deals with whether or not the CDM funding should be subject to the incentive regulation mechanism ("IRM") rate adjustment or whether the funding should remain outside of the IRM rate adjustment as is currently the case.

LPMA submits that the status quo should be maintained and that CDM funding should remain outside of the IRM rate adjustment mechanism. Including the CDM funding under the IRM adjustment would add unneeded complexity to the variance account around the level of CDM expenditures. Further, as the draft Guidelines state, distributors may bring forward an application to change the amount spend on CDM programs or to recover in rates amounts spent in excess of the approved budget. Keeping the CDM funding as a stand alone issue would be simpler to administer. For example, a distributor may wish to recover excess expenditures through rates, but if the CDM funding budget is

included under the IRM rate adjustment mechanism, and the utility was over earning, would there be any reason to allow the distributor to recover these additional costs from ratepayers but not prove them with the excess earnings actually achieved through other distributor functions? LPMA notes that the DSM budgets are outside of the IRM rate adjustments for the gas utilities and believe this is the proper approach to follow at the current time. In the future, once CDM has become more of an established function and all parties have gained experience, the Board may want to revisit the need to keep these costs outside of the IRM adjustment.

3. Distribution and Transmission Losses

LPMA believes that including losses in the calculation of the benefits of CDM is appropriate as is including these impacts in the calculation of the SSM. LPMA also supports 2.5% loss factor for transmission as a reasonable estimate to be used province wide. LPMA also believes that distributors should use a province wide factor of 4.0% for distribution losses rather than their own specific distribution loss factor.

The Board poses three questions related to this topic. The first is related to the implications of all distributors using the same distribution loss factor rather than the loss factor specific to each distributor.

In general, LPMA believes that it would be better if each distributor were to use its own specific distribution loss factor rather than a province wide average. This is because the calculation of CDM benefits and the SSM should reflect, where possible, the specific impacts by the distributor. A distributor with a high loss factor should be able to reflect a higher benefit from a program that reduces energy use or demand than would a distributor with a lower loss factor. However, LPMA agrees that the complexity associated with calculating individual distributor loss factors, the fact that they can change from year to year and that they may be different from rate class to rate class more than outweighs the benefit.

The second Board question relates to the implications for program delivery, specifically for the types of programs for which distributors may seek funding through distribution rates.

LPMA believes that the draft Guidelines should provide more guidance on the calculation of the reduction in losses, including some examples. It is unclear, for example, to the LPMA how the calculations would be done for a CDM program that shifts load from peak to off peak period with any reduction in use versus a program that reduces use. Both could reduce losses, but it is not clear that the estimate of the benefits provided by both programs related to the reduction in losses would or should be equivalent. For example, the shifting of 100 kWh from the peak period to the off peak period may have a larger impact on losses than the reduction of 50 kWh from both of the on and off peak periods. Depending on the relative impact, programs related to load shifting may be more attractive than programs related to load reduction. The estimates used for distribution and transmission losses may, therefore, affect the choice of which programs are undertaken. It is unclear, however, whether this would result in a significant change in program selection, or just a minor change in selection of programs at the margin.

The third question posed is related to the implications of including distribution and transmission losses in the calculation of the shared shavings mechanism.

LPMA reiterates its submission that further guidance should be provided on the calculation of the reduction in losses. Some programs may result in only minor loss reductions (reduction in off peak load) while others may have a significant effect (reduction in on peak load). These differing impacts could be substantial when calculating the SSM.

While the inclusion of the distribution and transmission losses will increase the SSM that is paid by ratepayers, there should be a corresponding reduction in losses that ultimately help to reduce ratepayer bills on a going forward basis.

Finally, LPMA submits that more clarity should be provided on the application of the loss factors. Would the same loss factors be applied to all customers or would large users have a different factor applied to them than residential customers for example. This may impact not only on the SSM that is allocated to different rate classes, but may also impact on the programs selected by a distributor since some programs may be targeted to specific customers or rate classes.

4. Enhanced Evaluation Planning and Reporting

The Board has asked three questions under this heading. The first deals with Section 7.3 which deals with updated input assumptions for the LRAM and SSM calculations. In particular, the Board wants to know what the implications are of the updated input assumptions being implemented on a retrospective basis for LRAM, but on a prospective basis for SSM.

LPMA agrees with the draft Guideline suggestion that for LRAM purposes, the best information available at the time of the application to the Board to recover this amount should be used. The purpose of the LRAM is hold the distributor harmless from the impacts of CDM programs lowering average use. The best information available at the time of this calculation ensures this. Using outdated or inaccurate information would be counterintuitive to the purpose of the LRAM.

The SSM is designed to provide distributors with an incentive to aggressively pursue DSM. This incentive may be diminished if changes in assumptions are implemented on a retrospective basis, as they are for the LRAM. As a result LPMA supports not changing the assumptions for SSM purposes after the fact. However, LPMA believes that it is important that the assumptions that have changed should be used as the new base assumptions to be used for the following years in the calculation of the SSM in a multi-year plan. This ensures that the more accurate information is used going forward to ensure the reasonable expectations of ratepayers that they are only paying for the benefits realized. Thus, the approach proposed in the Guidelines provides both certainty for the distributors and protection for ratepayers.

The second question that the Board is seeking input on relates to Section 7.1 and whether the Board's expectations are sufficiently clear. While the details provided in the Guidelines do appear to be reasonably comprehensive, it is not clear that the interpretation of this section will be uniform across distributors, ratepayer representatives, Board staff and the Board. LPMA recommends that the Board post a comprehensive example, with comments, on its website for parties to emulate. The comments should highlight some of the issues that may arise as part of the evaluation plan and which approaches to these issues are acceptable and which approaches may be problematic.

The Board's final question in this section is similar to the second. The question deals with the Evaluation Report referred to in Section 7.4, and again ask if the Board's expectations are sufficiently clear. LPMA's response is similar to that in the previous question. A comprehensive example, posted on the Board's website, should be provided as a template for the distributors to file. This template would again include commentary on the various components of the report.

5. Minor Issues

a) Section 4.2 Revenue Allocation

LPMA believes that this section should be clarified. First, it should be made clear that costs associated with OPA-funded CDM activities should include any income taxes payable associated with these activities. Second, the statement that revenues earned from OPA-funded CDM activities should be kept separate from (i.e. not included in) the distributor's distribution revenue requirement should be clarified since revenues are not generally included in the calculation of a revenue requirement. Clarification would be achieved by expanding the wording in parentheses to the following: (i.e. not included in or used to offset). This change would also be applicable to the second paragraph in this section.

b) Section 4.3 Recording of CDM Spending

This section deals with the classification of CDM programs as non-distribution activities. LPMA agrees with the wording in general, but suggests that it should be clearly stated

that expenses in this context include any income tax cost associated with the operation of the CDM programs.

c) Section 7.2 Program Type Specific Guidelines.

The first sentence in this section refers to four types of CDM programs, but then only lists three types. These three types are detailed in sections 7.2.1, 7.2.2 and 7.2.3. LPMA believes the reference to four should be changed to three.

d) Appendix A – Section 1.1

The discount rate is defined as being equal to the incremental after-tax cost of capital, based on the prospective capital mix, debt and preference share cost rates and the latest approved rate of return on common equity.

LPMA believes this section lacks clarity. While identifying the rate of return on common equity as being the latest approved rate, the same language does not appear to apply to the cost of debt and preference shares. LPMA submits that this wording be changed to reflect the latest approved cost of debt and preference share costs.

LPMA is also concerned with the lack of clarity surrounding the "prospective capital mix". This needs to be more clearly defined. For example, this could be the latest approved capital structure, or it may reflect the prospective change in the capital structure as outlined by the Board in the EB-2006-0088/0089 Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors dated December 20, 2006 in which the capital structure was to be standardized with changes phased in over a number of years.

Please contact me if the Board requires any further information related to these comments.

Sincerely,

Randy Aiken

Randy Aiken
Aiken & Associates