

November 17, 2006

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

Dear Board Secretary:

Re: EDA Proposal for a Revenue Stabilization Mechanism for Local Electricity Distributors (EB-2006-0267)

The Electricity Distributors Association (“EDA”), the voice of Ontario’s local electricity distributors, is pleased to provide comments on the EDA proposal prepared by Elenchus Research Associates, *Designing an Appropriate Lost Revenue Adjustment Mechanism (“LRAM”) for Electricity CDM Programs in Ontario.*

As outlined in the submission enclosed, the EDA requests that the OEB outline for the process moving forward on this file. What will the process be for the EDA to respond to the comments submitted to the OEB?

Please direct any questions or comments to the EDA’s Regulatory and Legislative Analyst, Sarah Griffiths at (905) 265-5321 or by email at sgriffiths@eda-on.ca.

Yours truly,



Sarah Griffiths
Regulatory and Legislative Analyst

Encl.

RESPONSE TO OEB'S COMMENT PERIOD RE: EDA'S PROPOSAL FOR A REVENUE STABILIZATION MECHANISM FOR LOCAL ELECTRICITY DISTRIBUTORS (EB-2006-0267)

INTRODUCTION

The Electricity Distributors Association (“EDA”), the voice of Ontario’s local electricity distributors, is pleased to provide comments to the Ontario Energy Board (“OEB”) on the EDA proposal for a Revenue Savings Mechanism outlined in the report prepared by John Todd (Elenchus), *Designing an Appropriate Lost Revenue Adjustment Mechanism (LRAM) for Electricity CDM Programs in Ontario*. However, the EDA requests that the OEB outline the process moving forward. What will the process be for the EDA to respond to the comments submitted to the OEB?

The EDA is pleased that the OEB, through this comment period, is addressing the long standing issue of lost revenues and potential disincentives that have arisen in numerous jurisdictions as laid out in the paper prepared for CAMPUT, *Demand Side Management: Determining Appropriate Spending Levels and Cost-Effectiveness Testing* (Violette and Sedano, 2006: 36).

LDCs have communicated to the EDA and the OEB that there are evident problems with the current Ontario LRAM. First, the LRAM only addresses revenue associated with CDM programs that are controlled by the LDC. Therefore LDCs have no protection from the lost revenues due to CDM programs that are not associated with an LDC but are delivered in their service territory. Second, in order to claim lost revenue, an LDC has to be able to quantify how much revenue was lost due to a CDM program. However, within a multi-year PBR framework, it will be near impossible to quantify the lost revenue with accuracy that is reasonable when unmeasured lost revenues will accumulate and compound over several years.

The EDA proposal outlines a practical approach to holding LDCs whole with respect to lost revenue by implementing a revenue stabilization mechanism (“RSM”) that uses the variance between the forecast and actual energy consumption as the basis for a lost revenue adjustment.

There are a number of possible design options for a RSM that would meet the primary objective of keeping LDCs financially whole with respect to CDM results. The EDA recognizes that those options need to be developed and that the EDA proposal provides a preliminary concept for the beginning of a discussion for a proposed mechanism.

1. WHAT ARE THE IMPLICATIONS, ADVANTAGES AND DISADVANTAGES OF ADOPTING THE EDA'S PROPOSED APPROACH?

The main advantages of a revenue stabilization mechanism, as outlined in the Elenchus Research Associates paper, include:

1. All revenue loss associated with CDM is captured, despite the program deliverer;

2. RSM will address the efficiency impacts resulting from CDM programs of LDCs, efficiency standards changes, market-transformation but also from efficiency impacts of rate design;
3. A simplified process is provided as the revenue stabilization mechanism eliminates the need to quantify the impact that specific CDM programs would have on electricity demand; and
4. The approach is most closely aligned with the broad principles of incentive regulation.

2. IF THE BOARD PROVIDED A REVENUE STABILIZATION MECHANISM FOR DISTRIBUTORS, WOULD IT AFFECT THE DISTRIBUTORS' RISK? IF SO, HOW MIGHT IT IMPACT ON THE DISTRIBUTORS' ALLOWED ROE, AND/OR THE DESIGN OF AN INCENTIVE REGULATION FRAMEWORK?

The revenue stabilization proposal provides a framework for the development of a mechanism to address risk associated with conservation. The cost of capital process has been undertaken by the Board to consider ROE. Any discussion involving ROE must be made in the fullness of those discussions. In the event that the Board is considering any further discussions concerning ROE, then the industry reserves the right to have a fulsome discussion of all issues and assess options and recommendations going forward.

3. WHAT ARE THE IMPLICATIONS OF ADOPTING THE EDA'S PROPOSED APPROACH IF CDM PROGRAMS, ASSOCIATED EXPENDITURES AND PROGRAM RESULTS ARE NOT REVIEWED AND TESTED BY THE BOARD IN THE CONTEXT OF RATE RECOVERY?

Two important areas that need to be addressed in CDM planning are the cost recovery due to CDM planning and delivery, and the recovery of lost revenues due to CDM. As one of the primary deliverers of CDM and due to the unique relationship LDCs have with customers, the EDA and the LDC community have continued to advocate for adequate funding to promote the culture of conservation. The EDA is pleased that conservation will continue to be funded through the \$400 million LDC CDM fund administered by the OPA.

The details of LDC CDM funding are found in the July 13th letter from the Minister of Energy, Dwight Duncan, to Jan Carr, CEO of the OPA, where the Minister directed the OPA to assume 'responsibility for organizing the delivery and funding of CDM programs through LDCs in Ontario...'. The Minister also outlined the principles and processes the OPA must carry out to meet the objective. The principles include the Conservation Bureau managing the overall CDM program design and the measurement and verification of results. The OPA, according to the letter, is to ensure that an accountability framework is in place and that they review the activity and results against such a framework. The OPA is to report annually to the Minister with respect to the LDC CDM fund.

Therefore, it is expected that a review of programs, including results will take place under the contractual process that is currently being developed by the OPA in consultation with LDCs and the OEB.

4. THERE ARE TWO OPTIONS SET OUT ON PAGE 14 OF THE REPORT. DO YOU THINK ONE, BOTH, OR NEITHER ARE APPROPRIATE?

The two options set out on page 14 are:

- a. *Implementing an LRAM with limited scope, which will risk creating a conflict for LDCs between their conservation responsibilities and their fiduciary responsibilities, or else*
- b. *Adopting a simplified revenue stabilization mechanism that eliminates the impact of all variances from forecast in electricity demand, without the need to quantify the impact of specified CDM programs.”*

A revenue stabilization mechanism avoids excessive administration and regulatory effort, it holds distributors harmless with respect to the success of the conservation effort, and it supports all aspects of the provincial effort to create a culture of conservation. An LRAM with a limited scope will continue the current problem of the conflict between LDCs’ conservation responsibilities and their fiduciary responsibilities. This is a conflict that needs to be resolved in order for the province to reach its conservation goal of 6300MW.

5. ARE THERE ALTERNATIVE APPROACHES TO THE EDA’S PROPOSAL THAT THE BOARD MIGHT CONSIDER FOR SETTING A LOST REVENUE ADJUSTMENT MECHANISM FOR CDM, INCLUDING CDM FUNDED BY THE OPA? IF SO, WHAT IS THE MOST APPROPRIATE APPROACH?

The EDA will continue to dialogue with its members on options and alternatives that address the revenue loss from conservation.

CONCLUSION

With the implementation of the \$400 million LDC CDM fund, the numerous directives from the Minister of Energy to the OPA regarding CDM and the overall CDM component in the Integrated Power System Planning (“IPSP”), the need for an effective LRAM is even more critical. As discussed in the CAMPUT paper, the disincentive for CDM participation needs to be addressed. A review of jurisdictions has led to the recommendation that “where additional incentives to meet or exceed DSM targets have been used, the impact on the utility and its rate-payers appears to be positive” (Violette and Sedano, 2006: 3).

As stated in the EDA proposal, “An LRAM that protects LDCs against being penalized for pursuing CDM clearly will be an important element of a CDM-friendly regulatory regime”. The EDA believes that the appropriate mechanism to hold LDCs whole with respect to lost revenues is a revenue stabilization mechanism that uses the variance between the forecast and actual energy consumption as the basis for a lost revenue adjustment. As indicated at the introduction section of this comment paper, there are a number of possible design options for a RSM that would meet the primary objective of holding LDCs whole with respect to CDM results. The

EDA recognizes that those options need to be developed and that the EDA proposal provides a preliminary concept for the beginning of a discussion for a proposed mechanism. A comprehensive process and rules would need to be developed. The EDA looks forward to participating in a more fulsome discussion going forward.