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March 1, 2007

To: Licensed Electricity Distributors

**Re: Conservation and Demand Management (CDM) Funding**

Funding of distributor-delivered CDM programs through distribution rates has been available under the “third tranche” mechanism for the period ending September 30, 2007, with incremental funding also being available as part of the 2006 rate-setting process for the period ending April 30, 2007.

In accordance with the July 13, 2006 directive issued by the Minister of Energy to the Ontario Power Authority (OPA), funding (through the global adjustment) for future distributor-delivered CDM programs will be administered by the OPA. The Board had expected that such funding would become available in October 2007 and had previously made provision for distribution rate funding to remain available at least until September 30, 2007. However, in a submission dated February 14, 2007 the OPA indicated that until April 30, 2008 it will be in a position to fund only five CDM programs.<sup>1</sup> This means that funding for other CDM programs will not be available until at least May 1, 2008.

The Board’s November 14, 2006 “Filing Requirements for Transmission and Distribution Applications” contain filing requirements for incremental funding of CDM programs which currently allow distributors to apply for incremental funding for CDM programs that would run until September 30, 2007. Given the importance of the continued delivery of CDM by distributors pending the more widespread availability of OPA-administered programs, the Board will extend this incremental funding to run the entire 2007 rate year, i.e. until April 30, 2008.

For the same reason, the Board will also use an expedited approach in relation to the approval of additional funding for CDM programs that are currently undertaken as part of the third tranche of the market adjusted revenue requirement (“MARR-based CDM Programs”). Under the expedited approach, a distributor may apply for funding to extend a MARR-based CDM Program through to April 30, 2008 based on the following filing requirements:

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<sup>1</sup> The OPA has advised that these five programs are Business Incentive Program, 10/10, Residential Demand Response, Appliance Retirement, and Small Commercial Direct Install. For more information on these programs, interested parties should contact the OPA.

- A budget forecast for activities needed to keep the MARR-based CDM Program fully funded until April 30, 2008;
- A Total Resource Cost (TRC) analysis of 2006 performance of the MARR-based CDM Programs identical to the analysis required for the annual CDM reporting requirement.<sup>2</sup> The extension of the MARR-based CDM Program must meet the requirement of the TRC analysis; and,
- The allocation of CDM costs to the customer class(es) that will benefit from the MARR-based CDM Program and the specific rate adder for each class.

In an effort to minimize the likelihood of funding gaps for MARR-based CDM Programs, the Board will proceed as follows:

- For funding requests received **before March 23, 2007**, the funds will be included in 2007 rates for implementation on May 1 (provided that the TRC analysis requirement is met) but all amounts collected in rates in relation to the costs of the MARR-based CDM Program will be booked into a variance account. The Board will subsequently hold a hearing in relation to the approval of the extended MARR-based CDM Program. If the extended Program is approved, the variance account will be closed. If the Program is not approved, the variance account will remain and be the subject of disposition in the future, the expectation being that the Program would be discontinued.
- For funding requests received **after March 23, 2007**, although it will not be possible for the funds to be included in 2007 rates by the May 1 implementation date, the Board will endeavour to process such applications on an expedited basis.

Distributors should note that the Board does not intend to allow distribution rate funding for extended MARR-based CDM Programs or new CDM programs that are the same or substantively the same as the five OPA-administered programs referred to above.

While the focus of this letter is on the extension of MARR-based CDM Programs, the Board reminds distributors that they may also apply for incremental CDM funding for other programs. Such applications would need to be made in accordance with the more detailed requirements set out in the November 2006 Filing Requirements, and will be processed by the Board in the normal course.

The Board is currently developing a comprehensive long-term framework for the regulatory treatment of CDM costs and revenues. Once complete, that framework will articulate the Board's policy on how new CDM expenditures will be dealt with

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<sup>2</sup> The Board recently posted on its website an update of the annual CDM reporting requirements, which are due on March 31, 2007. Distributors seeking to include funding for extensions to MARR-based CDM Programs in their May 1 rate adjustments will therefore have to accelerate the development of the reporting material.

from a rate-making perspective. It will also identify how the Board may be engaged with CDM beyond April 30, 2008.

Please direct any questions you may have to the market operations hotline at 416-440-7604 or by e-mail to [market.operations@oeb.gov.on.ca](mailto:market.operations@oeb.gov.on.ca).

Yours truly,

*Original signed by*

Peter H. O'Dell  
Assistant Board Secretary