

2006 Electricity Distribution Rates
(RP-2004-0188)

Argument

Submission from:



CANADIAN
Energy Efficiency Alliance

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1. Background

The Canadian Energy Efficiency Alliance (the Alliance) is pleased to offer the following recommendations for addressing Conservation and Demand Management (CDM) in the 2006 Rate Handbook. The Alliance is in a unique position to offer these recommendations as it is the only independent organization focusing entirely on energy efficiency. The Alliance's main position has been consistent for the last ten years – Ontario citizens can realize net benefits from the aggressive pursuit of cost-effective energy efficiency, and that this should be realized through a hybrid governance model. The hybrid model recognizes that Ontario's LDCs represent a unique asset to develop and deliver energy efficiency messages and programs on a local basis; and that this capability will be complemented through a central function, now the Ontario Power Authority, to deal with province-wide issues, such as least-cost system planning, codes, and market transformation. The Alliance position is developed and refined through committee meetings and workshops, and is supported by a substantial majority of its members, but the Alliance recognizes that individual members have their own positions. All positions are approved by the Executive of the Board of Directors of the Alliance.

The Alliance is pleased to be able to participate in the Electricity Distributor Rate (EDR) proceeding, both by calling witnesses to appear before the OEB, and by hearing the evidence of other witnesses, and the cross-examination of these witnesses. Our recommendations outlined below take into account this participation, and build on, but do not replace, our pre-filed reply evidence.

Our argument is organized into sections:

- The context of conservation and demand management
- A strategy for regulating CDM
- CDM financing issues; and
- The Conservation Manual.

In each section we provide general recommendations to the OEB. In addition, we have appended specific recommendations for amending the Rate Handbook to reflect these recommendations for local distribution companies' conservation and demand management activities in 2006.

2. The context of conservation and demand management

Definition of CDM

Recommendation: The Rate Handbook should contain a definition of CDM activities and be based on the Minister's letter to LDCs of May 31, 2004. CDM activities should be defined as, energy efficiency; behavioural and operation changes; load management measures which facilitate interruptible and dispatchable loads, dual fuel applications, thermal storage and demand response; measures to encourage fuel switching which reduces the total system energy for a given end-use, such as electricity to gas or electricity to renewables; and distributed energy behind a customer's meter such as trigeneration, cogeneration, ground source heat pumps, solar, wind and biomass systems.

A clear definition of CDM and areas of CDM activity is necessary for LDCs. It will provide guidance on appropriate programs to be included in a CDM portfolio and help to focus CDM plans.

One deviation from the Minister's letter will be the exclusion of smart metering initiatives from post third-tranche CDM, since these are dealt with through a separate initiative.

Based on the definition of CDM recommended above, the OEB will be looking to the LDCs to undertake CDM activities in three key areas:

- In the distribution system itself, to reduce losses. These are improvements to the distribution system that result in energy savings, and LDCs should be encouraged to identify where losses are occurring, and opportunities for reducing these. Where measures are taken to reduce losses, costs of these should be rate-based consistent with other utility capital expenditures.
- Behind the customers' meters. These are programs that are designed to meet the specific local needs of the customers in the LDC's service territories. LDCs are well positioned to promote conservation to their customers.
- Within its own operations, as a consumer of electricity. The LDCs, like governments, have a responsibility to be leaders in the wise use of resources and to demonstrate this leadership within the community. The provincial government has set a target for reducing its electricity use in government-owned buildings by 10%. The OEB should urge the LDCs to assume this leadership role and endeavour to match or exceed this provincial target by 2007 through CDM programs for its own buildings

Support for CDM by utilities

Recommendation: The OEB should state that it expects all LDCs to develop and conduct – as part of their core business – aggressive, meaningful and cost-effective CDM programs applicable to their service territories and customers.

Local distribution companies are uncertain about their future, on-going role in conservation & demand management, and consequently are reluctant to make long-term commitments to CDM. The Minister has already stated that he sees LDCs playing an important role in CDM, and their doing so is consistent with government policy to promote a Conservation Culture, and to reduce demand by 5% by 2007 and 10% by 2010. A statement in the Rate Handbook indicating that the OEB expects CDM to be a part of each LDC's core business going forward, not just in 2006, would help to reduce this uncertainty.

“Aggressive and meaningful” suggests that the OEB could set a guideline for expenditures, below which it would expect an explanation from an LDC that plans to spend less than the designated amount.

“Cost-effective” means that the LDCs will analyze the effectiveness and efficiency of their CDM programs, and will choose and refine programs over time to realize the greatest benefits. This also implies a need for LDCs to evaluate their programs.

“Core business” means that, wherever possible, CDM initiatives will be treated in a manner consistent with other elements of their core business. In particular, this would mean that:

- Just as the utilities profit from their core business of delivering electricity to their customers, they should profit from delivering CDM savings to their customers.
- In the absence of compelling reasons to do otherwise, the utility will have consistent responsibilities for budgeting, planning, delivery and auditing.
- There should be no special notification provisions for CDM beyond those that are provided in rate applications.
- The level of scrutiny of individual programs or assumptions will be determined on the basis of materiality.
- Application of funding for CDM initiatives, and clearing of CDM accounts will be part of the normal rate proceedings.

3. A strategy for regulating CDM

A light-handed approach

Recommendation: The OEB should state that it is a goal of the Rate Handbook to encourage CDM, and, in particular to encourage innovation and experimentation in its early years; and therefore, the OEB will minimize the regulatory burden and reduce the uncertainty that the LDCs face associated with CDM, particularly in 2006.

The LDCs recognize the value that CDM can bring to their customers, and to the provincial electricity system. At the same, CDM is one of several new activities these organizations must manage. These organizations have historically been very risk averse, and so will benefit from actions that reduce their difficulties in responding to the CDM challenge. There is some concern that LDCs are not embracing CDM as aggressively as they might, in part because of uncertainty about the future role of the Conservation Bureau. It would be disruptive to the development of a Conservation Culture in Ontario if the rules were changed again now that LDCs have started to develop and pursue CDM initiatives. CDM represents a change in the corporate mandate of LDCs. Among the actions the OEB should take to address these matters, are:

- The OEB should undertake to reduce debate over the precision of assumptions and inputs for CDM programs to provide administrative ease and regulatory certainty. The OEB should indicate that it wishes to encourage the LDCs to come forward with assumptions and inputs. The OEB should impose the appropriate level of rigour, recognizing that the precision and accuracy will increase over time, but in the early days, the OEB should be prepared to accept a considerable level of uncertainty. The OEB should view uncertain estimates as being better than no estimates. The OEB should expect that the analyses will improve in the future with experience and time to develop, both on the program side and on the regulatory side. These principles can be referenced in the Rate Handbook and implemented in a *Conservation Manual*.
- The OEB should develop a *Conservation Manual* that identifies a set of default methodologies and data that the LDCs may rely on for their analyses and reporting to the OEB. As a rule, the OEB will accept analyses based on data or methodologies outlined in the manual, but will also accept alternative methodologies or data where the LDC provides a rationale for these. The manual will be revised and enhanced on a regular basis over time as additional or better data become available.
- In general, the OEB approach should be to provide advice and guidance rather than to mandate certain actions. Mandating is premature; the LDCs have not been given a chance to show what they can do. Further, it is unclear what would represent a breach of order or what the sanctions would be. Penalties would take money out of the system, rather than putting resources into the

- system. Further, mandating may just encourage spending, not necessarily effective spending.
- The OEB should establish the necessary deferral or variance accounts for CDM in the unified system of accounts. Separate accounts for CDM, distinct from third-tranche accounts, should be established for 2006 and beyond.

A culture of cooperation, learning and consultation

Recommendation: The OEB should facilitate open and transparent processes in order to encourage continued cooperation and sharing of information among utilities, innovation and learning about energy use and energy saving opportunities, and on-going consultation with technical experts, and local stakeholders.

Cooperation and information sharing among LDCs and with the public is essential to moving more quickly up the CDM learning curve for all concerned. Such sharing will avoid unnecessary duplication of effort, help to identify partnerships, and foster learning from best practices. The OEB has a key role to play as regulator of the LDCs to encourage cooperation and information sharing among them to ensure the successful and cost-effective management of CDM by the LDCs. Consultation with local stakeholders, particularly those who would be participants in the program, should be encouraged. This voluntary consultation should be undertaken under the control of the LDC, and its purpose is to advise and assist the LDC in ensuring the programs meet local needs.

To facilitate this cooperation and information sharing the OEB should:

- Require that the notice of full rate application, including the CDM plan, will be published in a local paper, and include a URL to where the full rate application (including CDM report) may be found on the World Wide Web.
- Ensure that information is on the public record and easily accessible. There should be an opportunity for intervenors to review it and determine whether they wish to intervene. A current list of filed CDM plans should be available on the OEB's website.
- Encourage LDCs to increase their understanding of how energy is used, both within their own operations, and by their customers, and to use this information as a basis for their CDM programs. This could include, for example, carrying out line loss analyses, and evaluation of customer usage patterns.
- Encourage LDCs to share information with and, where appropriate, to collaborate with other LDCs, and other partners. The OEB should indicate that it will not create an environment that encourages competition among LDCs where that will discourage information sharing and cooperation.

4. The CDM filing

Components

Recommendation: *the OEB should outline the components of the CDM part of the annual rate filing.*

Describing the specific filing requirements for LDCs regarding CDM is helpful to LDCs. It will provide consistent and ongoing guidance on what to include and enable LDCs to develop a standardized and streamlined approach to meeting those requirements. Having a specific set of filing requirements for LDCs will enable the OEB to ensure consistency among filings, minimize the amount of interrogatories required and increase the efficiency of the CDM approval process.

The CDM filing should include:

- Proposed CDM programs for the test year
- Forecasted energy and power savings by broad customer class attributable to the CDM plan
- Budget for each program and total CDM budget
- Rationale (i.e. the market barrier(s) the program is to address) and description of the plan/each program
- Proposed loss reduction initiatives and in-house programs
- Estimated lost revenues for the test year based on multiplying the forecasted energy and power savings by customer class by the distribution rate for that customer class, using the form provided in the *Conservation Manual*
- Description of the consultation on the plan – the level of stakeholder consultation should be appropriate to the scale of plan/program. Consultation should have a local focus, and include the target audiences for the programs, where appropriate. The OEB should indicate that consultation is voluntary, but encouraged.
- Partners, their roles and contributions, (and attribution amount or formula, if relevant)
- Description of whether the program is a pilot or not, and the type of program (e.g. information, incentive, R&D)
- Description of benefits anticipated (quantitative, if possible) and where they will occur (by type of customer - e.g. residential, commercial, industrial)
- Description of how each program will be monitored and evaluated (e.g. using default methods and values in the *Conservation Manual* or other specified method).

Portfolio design considerations

Recommendation: the OEB should encourage LDCs to take into account a range of portfolio design criteria, drawn from the Minister's advice, in formulating their CDM portfolio.

The OEB has indicated the importance of providing cost benefit analyses for individual programs in its CDM decisions of December 10, 2004. While cost benefit analyses are an important consideration in determining the programs to be contained in a CDM portfolio, it is only one of many considerations that should come into play when an LDC is choosing among programs. To encourage a broad range of participants in the 'Conservation Culture', to minimize cross-subsidization, and to take into account the different types of CDM activities (e.g. distributed generation, demand response, energy efficiency, and fuel-switching), the OEB should encourage LDCs to provide a mix of programs across its customer base. Because low income consumers are most disadvantaged by higher electricity costs and are least able to take steps to reduce their electricity bills, the OEB should continue to strongly encourage LDCs to provide programs for low income consumers. The OEB should also encourage a balance in long and short term programs to bring a level of stability to the portfolio; the leveraging of resources through partnerships to increase the energy savings opportunities; and encourage research and development activities, including market research and program piloting, to foster a better understanding of energy use and markets within their service territories and more targeted programs. Therefore, the CDM portfolio design criteria should include:

- Cost effectiveness
- Distribution of programs across customer classes
- Local needs
- Partnership opportunities
- Mix of long and short term measures
- Low income and other hard to reach consumers
- Mix of distributed generation, demand response, energy efficiency and behavioural change.

The LDC should include in its CDM filing an explanation of how these factors were taken into consideration in selecting the programs for the CDM portfolio.

Filing schedule

Recommendation: The OEB should specify the schedule for CDM filings as part of the rate application.

It would be helpful to LDCs and to intervenors to have a set schedule for filing rate applications and the CDM filing within it. This will facilitate planning and scheduling

by the LDCs and intervenors, and enable the wise allocation of resources to these activities. It should also help the OEB to plan for the approvals of these plans.

The OEB should set out the form and substance of the CDM filing in the *Conservation Manual*. All LDCs will be required to report their estimated savings and the lost revenue using the calculation forms provided in the *Conservation Manual* (even if the values are zero).

The following filing schedule is proposed:

The OEB will specify that the July 4, 2005 filing of the 2006 rate application, including the CDM filing, includes:

- 'prospective' LRAM and incentive (may include some real data) for 2005 (where the LDC intends to apply for these)
- prospective 2006 LRAM and incentive (where the utility intends to apply for these)

The OEB will specify that that the July 2006 filing of the 2007 rate application including the CDM filing includes:

- true up on 2005 (forecast – actual) in order for the rate order to take into account the clearance of the 2005 LRAM and incentive
- prospective 2007 LRAM and incentive

The OEB will specify that the July 2007 filing of the 2008 rate application, including the CDM filing includes:

- Evaluation on 2006 post-third-tranche CDM (according to the methodology outlined in the 2006 rate year filing submitted in July 2005)
- True up on 2006 (forecast – actual) in order for the rate order to take into account the clearance of the 2006 LRAM and incentive, where applicable
- Prospective 2008 LRAM and incentive, where applicable

Interim filings

Recommendation: inter-year filings should not be required for post third-tranche CDM spending unless there are material and substantial deviations from the program outlined in the approved rate filing.

For post third-tranche CDM, no normal in-year reporting should be required. This reflects the expectation both that there will be greater experience on the part of the LDCs with CDM, and that the filing requirements will mean that the plans are more specific. However, LDCs should advise the OEB forthwith of any material or substantial change of their plans. (Material or substantial means +/- 20%.) The notification of a change will indicate the magnitude of and reasons for the deviation from total budget. In addition, LDCs should advise the OEB if there is a change of more than 20% in spending across customer classes.

Public notice for CDM applications

To encourage cooperation and sharing of information and to treat CDM as part of the utility's core business, the Rate Handbook should:

- Require that the notice of full rate application, including the CDM plan, be published in a local paper, and include a URL to where the full rate application (including CDM report) may be found on the World Wide Web.
- Require that rate filing, including the CDM plan, is on the public record and easily accessible. Provide an opportunity for intervenors to review the rate filing and determine whether they wish to intervene.

There should be no special notification provisions for CDM beyond those that are provided in rate application. To further facilitate sharing and learning, the OEB should provide a current list of filed CDM plans on its website.

5. CDM financing issues

CDM budget

Recommendation: The OEB should establish mechanisms for LDCs to have a budget for CDM, for claiming lost revenues from electricity savings and for an incentive to carry out aggressive CDM.

The OEB has indicated that third tranche CDM dollars must be spent by September 2007. Most LDCs plan to spend their third tranche dollars during this time frame. However, some LDCs, such as Milton Hydro and Brantford Power, will spend their third tranche dollars by the end of 2005; and others, such as Burlington Hydro and Kitchener-Wilmot Hydro, plan to complete their third tranche spending within 2006. To ensure continuity in their CDM programs and to provide their customers with additional energy savings opportunities in 2006 (where applicable) and before September 2007, these LDCs will require access to a new CDM budget as early as 2006.

To ensure continuity in CDM during 2006 and pre-September 2007, the OEB should:

- Encourage LDCs that have completed their third tranche spending on CDM to apply for new CDM program funding as part of their regular rate application for 2006 and for 2007.
- Specify minimum and maximum suggested expenditures on CDM as a percentage of gross revenues LDCs who have completed their third tranche spending on CDM may apply for CDM program funding as part of their regular rate application.
- Specify in the *Conservation Manual* minimum and maximum expenditures on CDM as a percentage of LDC gross revenues. The OEB will permit LDCs to submit applications for a CDM budget outside this range, but the LDCs will be expected to provide a rationale for these budget values. For 2006, in the *Conservation Manual* it is recommended that the OEB set the budget range for customer-side CDM at between 0.5% and 3% of gross revenues.

It is important to keep the LDCs whole so that any disincentive to engage in CDM is eliminated. The LDCs rates are implicitly or explicitly based on an anticipated volume of electricity sales. In the absence of a mechanism to offset lost revenues from CDM, the LDCs will reasonably see CDM as a threat to their financial stability, and cannot be expected to actively promote efficiency measures, particularly LDCs who are not anticipating growing volumes due to population growth or other factors. To incent aggressive, cost effective CDM, the LDCs would benefit from having an incentive. The Enbridge Gas Distribution experience with an incentive is a clear indication that an incentive can promote higher focus on achieving results for Ontario.

Treatment of CDM expenditures

Recommendation: Customer-side CDM spending should be expensed, not capitalized.

In theory, it is preferable to have costs incurred when the benefits associated with them accrue, which would lead to CDM spending that yielded benefits over time to be capitalized. In practice, with an on-going CDM program, capitalizing would only make a difference for the first few years, but spending is likely to be relatively low in those years in any event. Expensing reduces pressures on the LDC's cash flow, and the level of expenditures being contemplated (0.5 to 2% of gross revenue) has a small impact on rates. Therefore, for 2006, the Rate Handbook should require that:

- CDM expenditures for customer-side programs will be expensed in the year expended.
- CDM expenditures for utility-side investments will be treated as they would be in the ordinary course of accounting. CDM assets will be rate-based. Where measures are taken to reduce losses, costs of these should be rate-based consistent with other utility capital expenditures.

CDM accounts

For administrative ease for both the OEB and the LDCs, the LDCs should not be required to apply for deferral or variance accounts for CDM for 2006. Instead, the OEB should establish the necessary deferral or variance accounts for third- tranche and post-third tranche CDM in the unified system of accounts. The Rate Handbook will identify these accounts, and indicate that the clearing of CDM accounts will be part of the normal rate proceedings.

Adjusting for lost revenues

Recommendation: The OEB should offer the LDCs a prospective LRAM, but be prepared to accept a retrospective LRAM in 2006. LDCs can choose whether to apply for an LRAM in 2006.

A prospective lost revenue adjustment mechanism (LRAM) helps to keep LDC costs and customer payments in the same time frames. A retrospective LRAM defers costs associated with today's distribution utility services for CDM to next year or the following year. This is more significant than for CDM expenditures, since programs with positive net economic benefits can be expected to have lost revenues greater than the utility cost. A prospective LRAM also would encourage integration of consideration of CDM into the early decision-making processes and overall business activity of the LDC. However, it is recognized that in the near term (i.e. the 2006 rate year), some LDCs will find it difficult to develop a prospective LRAM, and it is undesirable for this difficulty to become a reason to defer CDM initiatives.

LDC rate applications should include a prospective LRAM, however, if a utility is unable to have a prospective LRAM then the OEB may allow a retrospective LRAM, but the LDC will have to advise the OEB of the steps it will take to move towards a prospective LRAM.

Shareholder incentives

Recommendation: The Board should offer LDCs the option of applying for a shareholder incentive.

A shareholder incentive puts CDM on an equal footing with the supply offerings, and is an essential component to ensuring CDM captures the attention of management. The Alliance concurs with the rationale for a shareholder incentive for customer-side CDM programs that was presented in the evidence from London Economics and from Paul Chernick. In the Alliance's pre-filed evidence we expressed indifference between an incentive based on TRC and one based on energy units. In fact, to the extent that it is possible to lock in all parameters except the number of participants, the two may be almost indistinguishable.

A disincentive or penalty is not advisable. LDCs should be encouraged to see CDM as an opportunity, not as a threat. Further, where cost-effective programs are selected, and they are prudently managed, every additional dollar of net benefit or kilowatt-hour brings benefits to LDC customers, and this should be seen as positive and should be rewarded on that basis. Going forward (beyond 2007), it is worth giving consideration to a higher marginal incentive rate for exceptional performance, but this still ought to provide a reward based on every dollar or kilowatt-hour saved. In the 2006 rate year, a simple mechanism, based on a simple formula is reasonable.

For the 2006 test year, an incentive of 5% of total net TRC benefits would not create undue pressure on rates, and would give a message to LDC management that CDM is a useful and profitable activity for them to undertake. An incentive of 0.0025 dollars per kilowatt-hour would have a similar effect. (Based on a 'typical' delivered cost of electricity of $0.10 \text{ \$/kWh} \times 5\% \div$ a typical benefit cost ratio for electric CDM of 2.)

Loss factor incentives

Recommendation: No loss factor incentives should be offered in the 2006 rate year.

A shareholder incentive should *not* be offered for line losses, or for in-house conservation initiatives. Rather these should be treated in the normal way utility investments are treated, including rate-basing where that is appropriate.

Evaluation and audit

Recommendation: the OEB should require LDCs to evaluate the programs and undertake an independent audit of LRAM or incentive claims. The OEB should provide guidance in the Conservation Manual on an appropriate audit protocol.

In its pre-filed evidence, the Alliance identified the need for both internal evaluation and an audit based on an audit protocol. The evaluation is consistent with the objective, cited above, of developing a culture of learning and cooperation, and it should be seen in this regard, not as challenge to the integrity of the LDC. Where results deviate from plans, it will be important to understand the reasons for these deviations, not just to offer hypothetical explanations. LDCs will need to understand what worked and what did not and why so that they can modify programs as they move forward. Similarly, it will be important to incorporate on-going monitoring to ensure that program managers get real-time feedback that allows them to modify programs and to avoid wasting resources.

In cross-examination of Alliance witnesses, the need for evaluation and audits – particularly where there is an LRAM, a shareholder incentive, or both – was generally not challenged. However, there was discussion over whether the audit should be primarily under the direction of the LDC or the OEB.

Arguments in favour of the audit being under the control of the OEB are:

- Central control will ensure consistency
- OEB control of the auditor will ensure greater independence and rigour
- The CDM audit requires specialized expertise which is not readily available and is beyond the normal capability of financial auditors.

Arguments in favour of the audit being under the control of the LDC are:

- It is not reasonable to expect the OEB to assume responsibility for what could be 90 plus audits
- The LDCs will understand their programs best, and will need to work closely with the auditor
- The audit can be tailored to local conditions more readily under the direction of the LDC, guidance from local stakeholders and consistent with the audit protocol
- Auditing of CDM should be treated no differently than other audits the LDCs undertake
- LDC control of audits will simplify the role of the OEB.

In general, the development of an audit protocol, laid out in the *Conservation Manual* will address many of the issues that might arise over consistency. The audit should be clearly separated from the prospective evaluation assumptions in the *Conservation*

Manual, such as free ridership rates or attribution. Even if the OEB were to engage the audits, it is not clear that complete consistency could be maintained, since some of these issues will require professional judgements, and competent professionals may come to different conclusions, even if they are employed by the same firm and engaged same client. Further, there are limits to the benefits of consistency. There is no reason to think that one auditor or one auditing firm would necessarily have the *best* professional judgement on all matters. A professional auditing firm should be expected to maintain standards of professional conduct, whether engaged by the OEB or the LDC, and should stand behind the legitimacy of the audit. Finally, the OEB will maintain the right and responsibility to send in its own auditors, whether on a random basis or where it has suspicions or evidence of misconduct.

On balance, based on the above discussion, the Alliance believes that it would be preferable for the audits to be conducted under the direction of the LDC based on the Board's audit protocol. The ability to tailor the audit to the specific needs of the LDC program mix and local considerations consistent with the audit protocol outweighs any small additional amount of consistency that might arise as a result of the OEB retaining the audit firm.

6. The Conservation Manual

Process

Recommendation: The development of the Conservation Manual is a priority task. For 2006, development of the manual should be OEB-driven, with development coordinated by a consultant familiar with the Ontario market in consultation with a small group of technical experts and representatives from the LDCs.

The CDM chapter of the 2006 Rate Handbook will need to be supplemented by a *Conservation Manual* to provide details on inputs and assumptions, monitoring, evaluation and reporting. California has such a manual (filed as Exhibit D11.6) and it has been quite useful to both the California Public Utilities Commission and to the electric utilities that rely on it. CPUC updates the manual periodically to keep it current and has embarked on a process to update its 2003 manual. A similar manual for Ontario tailored to Ontario's regulatory framework and electric LDC needs should be developed by the OEB.

The OEB should begin to develop this manual, which was recommended by the CWG, as a priority matter, even if all other issues are not fully resolved.

To ensure that the manual is developed quickly and effectively, the OEB should engage a consultant familiar with the Ontario market, and both large and smaller LDCs to assist the OEB in its development. The consultant would work with a group of technical experts and representatives of the LDCs. In addition, although CDM has some differences from the gas model used by Enbridge and Union Gas, relevant expertise and knowledge from these companies would be valuable to the development of similar processes on the electric side.

It is suggested that a draft of the manual be made available for comment in early April 2005. The draft manual should have a high level of transparency. This would include, for example, identifying the sources of data or methodologies, including whether they are assumptions or preliminary estimates subject to future refinement. The draft manual should be distributed to stakeholders for their review and comment. Persons offering programs, whether LDCs, or third parties would be invited to have their data, methodologies or both reviewed by the technical group and incorporated into the manual. The input would be taken into account in developing the final manual, which would be available in mid- May 2005.

Components

Recommendation: the OEB should provide guidance to the technical working group on the content and format of the Conservation Manual.

To ensure the smooth operation of the consultation process on the development of the manual, the OEB should provide clear terms of reference for the work of the technical experts and indicate the general content of the manual.

The Conservation Manual should include, at least, the following items:

- Calculation form for reporting estimated lost revenues
- Template for program descriptions (perhaps modelled on BC Hydro form, appended)
- Default method for calculating energy savings
- Default net-gross ratios for specific programs and other programs (perhaps modelled on the CUPC table, appended)
- Default energy use parameters for common measures (e.g. kW for standard incandescent and CFL bulbs, and 'normal' hours of use)
- Default measure lives for specific measures (perhaps modelled on the CUPC table, appended)
- Methodology for calculating lost revenues from CDM activities
- Methodology for calculating the TRC
- Methodology for calculating the incentive
- Avoided electricity costs (e.g. Enbridge/Union electricity avoided costs used in the calculation of their TRC) and/or the methodology to calculate avoided electricity costs from readily available data (e.g. through an adjustment to historic IMO prices)
- Processes and methodologies for undertaking program evaluations
- The audit protocol.

Alternative data or methodologies

Recommendation: the OEB should accept analyses based on data or methodologies outlined in the manual, but also indicate that it will also accept alternative methodologies or data where the LDC provides a rationale for these. The manual should be revised and enhanced on a regular basis over time as additional or better data become available.

In the course of implementing programs within their CDM portfolios, LDCs may obtain data or develop alternative methodologies that better address their particular situation. In these circumstances, the OEB should consider accepting these data or methodologies. In order to continue to improve the quality of CDM and to be helpful to LDCs, the OEB should revise the manual on a regular basis as potential improvements to the manual are identified.

7. Appendix: Suggested amendments to the draft 2006 rate handbook

Section 1.0 Introduction¹

Even though the distribution rate handbook deals with applications for 2006, many of the CDM activities of the LDCs will have rate setting implications beyond the 2006 test year. The Board needs to acknowledge in the Rate Handbook, or in its decision, that matters initiated in 2006 but which have implications for rates in future years, such as capital investments in CDM, lost revenue adjustments, or shareholder incentives will be carried over to the appropriate future test year, and needs to state expressly how it intends to deal with these matters.

The introduction needs to state that there will be a *Conservation Manual* which will be incorporated by reference into the Rate Handbook. The *Conservation Manual* will include specific, mandatory filing requirements for CDM activities, as well as guidance materials for LDCs undertaking CDM activities.

Section 1.1.1 Description of the application

Add in 3rd paragraph: "... understanding and assessing the application for rates **including conservation and demand management initiatives.**"

Section 3.1 – add the following line:

If an LDC files under option 3 – a future test year – it shall provide information concerning its C&DM initiatives, as set out in the *Conservation Manual*.

Table of Tier 1 adjustments on p.18

Change *Placeholder for CDM and Smart Meters* should be replaced with *Placeholder for Smart Meters* (in both columns).

A new row should be added for *CDM expenses* in the distribution expenses column and *CDM utility-side capital expenditures* in the rate base column.

Page 20, 6) CDM and Smart Meters – add a new paragraph:

The applicant should adjust the 2004 base filing for all such costs anticipated for conservation and demand management initiatives that have not already been included in its third tranche CDM expenditures. The expenses will include all customer-side of the meter CDM expenditures and utility-side expenditures that would normally be expensed.

¹ Page numbers refer to the Adobe Acrobat version from http://www.oeb.gov.on.ca/documents/edr_EDRH_cleanv2_100105.pdf

Page 21, 4) CDM and Smart Meters – add a new paragraph:

The applicant should include in its filing capital expenditures related to conservation and demand management that have not already been included in rate base.

Page 25, 2) second bullet – add:

as set out in the *Conservation Manual*

Page 30, second para.:

Such activities include operation and management of the distribution system, **actions to increase the efficiency of the distribution system**, meter reading services

Page 36, Other Capital Assets -- add new bullet:

Utility-side conservation and demand management capital assets not identified above.

Page 43, Table of Distribution Accounts: add row for:

Distribution Expenses: Conservation and Demand Management

Page 48, 6.1 Definition of Distribution Expenses and **6.2** should be amended to indicate that distribution services includes Conservation & Demand Management activities

Page 48, 6.3

The Accounting Procedures Handbook and the Unified System of Accounts should be amended to provide an appropriate level of disaggregation for CDM activities and deferral, and variance accounts as more specifically set out in the *Conservation Manual*.

Page 55, 3. on Incentive Plans

The targets can include performance which benefits ratepayers (e.g. targeted reduction in departmental OM & A expense per employee or CDM targets),

Page 59 requires a new Section 6.2.8 Conservation and Demand Management Plans

The Applicant shall file a Conservation and Demand Management Plan prepared in accordance with the guidelines in the *Conservation Manual*.

Page 62, Schedule 6-3 (a)

As previously stated, the Handbook should specify that distribution expenses includes expenses for conservation and demand management

Page 87, Section 8.3 last paragraph: delete this paragraph

Page 88, first full paragraph (on CDM): delete this paragraph since CDM expenses should be recovered through rates since CDM should be a core activity of LDCs. CDM expenses have already been dealt with through a Tier 1 adjustment.

Page 88, add new section 8.3 on Lost Revenue Adjustments for CDM

An Applicant seeking an adjustment for lost revenues from CDM should file a completed LRAM schedule in the format and using the methodology specified in the *Conservation Manual*.

Page 88, add new section 8.4 on Shareholder Incentive for CDM

An Applicant seeking an incentive for performing CDM activities should file a completed shareholder incentive schedule in the format and using the methodology specified in the *Conservation Manual*.

Page 89, Schedule 8-1

Add a new row 5:

Plus: Lost revenues through CDM activities

Change the number of the Base Revenue Requirement to 6, and change the Comments to Row 1 – 2 – 3 - 4 + 5

Page 94 Section 9.2 2. CDM programme impacts

If the Applicant has CDM programmes that are expected to decrease load by a material amount, the load impact on each applicable rate class, sub-class, or group, calculated according to the methodology in the *Conservation Manual*, must be taken into account when completing Schedule 9-3.

Page 94 Section 9.3 Second paragraph: delete this paragraph. As a core activity of LDCs, no 'special' allocation of CDM revenue requirements is required; the default allocation is appropriate for CDM revenue requirements in 2006.

Page 108, Section 10.10 first paragraph

The CDM revenue requirement will be recovered in rates using the default allocation.

Appendix A – add the following definition:

Conservation and demand management activities are defined as: energy efficiency, behavioural and operation changes, load management measures which facilitate interruptible and dispatchable loads, dual fuel applications, thermal storage and demand response, reassures to encourage fuel switching which reduces the total system energy for a given end-use such as electricity to gas or electricity to renewables, and distributed energy behind a customer's meter such as trigeneration, cogeneration, ground source heat pumps, solar, wind and biomass systems.

Page 155, Appendix B 9th bullet – replace with:

Conservation and demand management activities, as defined in *Appendix A – Glossary*

Throughout Appendix B – Tables need to be modified to incorporate CDM activities

Page 175, Appendix E, 9th bullet – replace with:
Conservation and demand management activities, as defined in *Appendix A – Glossary*