

# 2006 EDR Rate Handbook

## Conservation Issues



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Presentation to the Board

November 2nd, 2004

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# Caveat

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- Resolved items should be read in light of Consumer Council of Canada's objection to conservation matters going forward in this process. (If conservation is retained within this process, CCC's position is not known on "resolved" items at the time of writing.)
- Scope Questions:
  - #1. C&DM separate process?
  - #2. Board staff to retain witness?



# 1. Scope of Conservation

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- Group dealt with conservation behind the customer's meter
- Need for 'utility side of the meter' conservation (often capital investments) to be addressed by adjustments to rates or rate base was not addressed by this group (Incentive for utility loss reduction is dealt with by rates group -- issues 7.2+)



# Scope of Conservation (cont.)

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- Types of conservation considered:
  - Energy efficiency of an electric end-use;
  - Peak reduction and peak shifting programmes;
  - Fuel switching programmes; and
  - Programmes that promote switching from grid-supplied electricity to self-generation



# Scope of Conservation (cont.)

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- Resolved:
  - Utility choice as to which (if any) to pursue within allowed scope
  - Total Resource Cost Test (TRC) should be used to screen for cost effectiveness of measures and programs. (TRC is a net benefit test that counts all financial costs and benefits over the life of the measure, whether felt by the customer, distributor or system.)



# Scope of Conservation (cont.)

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- Scope Issue:
  - #3. Where does utility side conservation fit?
- Unresolved Issue:
  - Most conservation raises rates (even while lowering total customer costs) due to utility's lower 'sales'. Should utilities be allowed to pursue conservation that will raise rates?  
  
(In particular, should fuel switching programs be excluded as having particularly high rate impacts?)



## 2. Revenue Protection (LRAM)

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- Once rates are set for any given period, new conservation reduces LDC revenue
- A non-mandatory Lost Revenue Adjustment Mechanism could hold utilities harmless from LDC-inspired impacts
- Requires an account to track revenue variance due to variance from level of conservation assumed in setting rates
- Subsequent clearance would be based on pre-approved inputs where possible



# LRAM (cont.)

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- Unresolved Issues:
  - LRAM for 2005 activity affecting 2006 revenues?
  - LRAM for 2006 activity affecting 2006 revenues?
- Scope Issue
  - #4. Should 2006 (or 2007) rates compensate utilities for revenue losses in 2005 due to conservation activity?





## 3. Shareholder Incentive (SSM)

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- Widespread support for a (non-mandatory) shareholder incentive for conservation
- Design goals: an effective incentive but not too rich a reward; simple, if possible
- Requires a Shared Savings Mechanism deferral account
- Subsequent clearance based on pre-approved inputs where possible (see below)



## SSM (cont.)

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- 3 options developed:
  - Give utility 5% of TRC benefits created
  - Give utility a higher level of TRC but only for savings beyond a pro-rata formulaic pivot point driven by utilities' level of conservation spending times a minimum cost effectiveness threshold. (eg. 10% of TRC created beyond \$5.60/dollar of O&M)
  - Start with simple, move to threshold



# SSM (cont.)

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- Unresolved Issues
  - Need for SSM
  - Which model?
  - What level of incentive (5% or less)?
  - Is more analysis needed first?
  - Interim clearance on estimates with subsequent true up, or wait for audit?
  - What types of conservation are covered?



## SSM (Cont.)

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- Crossover Issue:
  - SSM to be outside of RoE limits
- Scope issue:
  - #5. Is the application of a shared savings mechanism to 2005 activities within the scope of the 2006 handbook (may involve filings and rate impacts in 2006)?



# 4. Annual Pre-approval of C&DM Input Assumptions

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- Resolved:
  - OEB to provide pre-approval of avoided costs, input assumptions and programs
  - Possible assistance of auditor and advisory committee (see below)
  - Web site posting to reduce duplication and streamline OEB review by enabling LDC requests to adopt inputs or programs already approved for other utilities



## Pre-approval (cont.)

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- Pre-approved values are the basis for clearing any LRAM and SSM (assuming program delivered as pre-approved)
- Subsequent revisions due to audit or experience to be applied only to future approvals (non-retroactivity is intended to simplify the process and avoid loaded debates)



## Pre-approval (cont.)

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- For prescriptive (non-custom) programs the only variable not pre-approved may be the number of participants
- For programs that involve customization for each customer (many industrial and large commercial projects), most or all elements may not be pre-approvable but utility risk is lower due to engineering estimates



# Pre-approval (cont.)

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- Scope Issue:
  - #6. Should applications for pre-approval be simultaneous with rates filing? (if so should filing requirements be in rate handbook or in C&DM handbook?)
- Unresolved issue:
  - Should pre-approval be available for the generic elements of custom projects?





## 5. Conservation budget

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- Agreement that a guideline or blanket budget approval would assist LDCs in planning an appropriate level of effort and assure consumers that rate impact is reasonable.
- Even with a blanket approval utilities would be allowed to apply for higher budgets.



## Budget (cont.)

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3 options discussed:

- Guidelines as part of a conservation handbook (see below)
- Blanket approval for conservation budgets based on 'X' cents/kWh (less 3<sup>rd</sup> tranche MARR expended in that year)
- As above and set 'X' at 0.2 cents/kWh



# Budget (cont.)

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- Scope Issue
  - #7. Applicability of guideline to pre-2006 spending (beyond 3<sup>rd</sup> tranche)
- Unresolved Issue
  - What is the preferred mechanism and level of guideline/blanket approval?
- Crossover Issue
  - C&DM exempt from rate mitigation?



## 6. Conservation Expenses Variance Account (CEVA)

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- To return to customers funds budgeted but unspent.
- To fund continuation of successful programs where customer response is higher than forecast (eg. A rebate program.)



## CEVA (cont.)

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- Could allow up to 20% overage in spending to be recorded without prior approval (or more with prior application)
- Unresolved Issue:
  - Need for a CEVA



## 7. Conservation Handbook

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- Not a rate handbook item but an important related recommendation for early action
- C&DM Handbook a continuously evolving OEB set of guidelines that would include *inter alia*:
  - Program examples
  - Screening templates
  - Common input assumptions (like provincial avoided generation and transmission costs)



# C&DM Handbook (cont.)

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- Could include filing deadlines
- Could include spending guidelines
- Could include audit protocols
- Program and portfolio guidelines
  - OEB should continue to consult with stakeholders on guidelines



# C&DM Handbook (cont.)

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- Suggested program guidelines
  - Diversified portfolios to allow widespread participation (eg. Address barriers to low income customers)
  - Minimize cross-subsidies between customer segments
  - Co-operate with other LDCs, OPA, Gas LDCs...
  - Contracting out acceptable if advantageous while maintaining service and safety standards
  - Don't overlook lost opportunities





# C&DM Handbook (cont.)

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- Annual reporting requirements
  - Energy and peak impact statistics
  - Conservation expenditures
  - Net present value of TRC benefits;
  - First year and cumulative rate impacts of portfolio

(all in total and broken out by major customer segments (e.g., residential, commercial/institutional, industrial));



## C&D Handbook (cont.)

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- Added program level reporting for utilities with SSM: Target market
  - Number of participants
  - O&M\$/participant
  - Lifetime of savings achieved
  - TRC test inputs and results



# C&DM Handbook (cont.)

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- Unresolved:
  - rate impacts by program?
  - language concerning contracting out
- Scope:
  - #8. In what process should such a handbook be developed?



# 8. Auditor and Advisory Committee

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- Not a rate handbook item but an important related recommendation for early OEB action
- Agreement on the advisability of an independent auditor providing technical advice on pre-approvals and audit LRAM and SSM claims
- Unresolved:
  - Should OEB appoint a multi-stakeholder committee to advise the auditor and the Board?



# Auditor and Advisory Committee

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- Unresolved:
  - Should OEB appoint a multi-stakeholder committee to advise the auditor and the Board?
- Scope:
  - #9. In what process should the suggestions of auditor and advisory committee be considered?