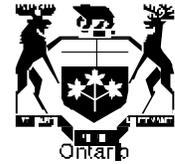


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BY E-MAIL AND WEB POSTING

November 4, 2008

**To: All Licensed Electricity Distributors
All Participants in Consultation Process EB-2008-0037
All Other Interested Parties**

**Re: Conservation and Demand Management Input Assumptions
Board File No. EB-2008-0352**

Background

On March 28, 2008, the Board issued the “Guidelines for Electricity Distributor Conservation and Demand Management” (the “Guidelines”), which consolidate all of the Board’s policies relating to conservation and demand management (“CDM”) activities undertaken by electricity distributors in Ontario. The policies set out in the Guidelines are intended to guide distributors in designing program proposals, applying to the Board for funding, and implementing their programs.

Under the Guidelines, the cost effectiveness of CDM programs is evaluated using the Total Resource Cost (“TRC”) test. Conducting the TRC test entails consideration of certain avoided costs and of certain input assumptions. To that end, the Board posted on its website the following documents to replace similar materials that had formerly been part of the “Total Resource Cost Guide” (the “TRC Guide”): “Avoided Cost of Energy, and of Generation, Transmission and Distribution Capacity” and “Inputs and Assumptions for Calculating Total Resource Costs”. The latter document includes an “Assumptions and Measures List” differentiated by customer class. Distributors are expected to use the Board’s inputs and assumptions when doing a cost-benefit analysis of their CDM programs. However, as indicated in the Guidelines they may use other data, including free rider rates, where appropriate and justified, and with detailed evidence to support its use.

Updating the Input Assumptions

In the cover letter accompanying the Guidelines, the Board noted a general consensus among interested parties that there should be consistency between the values adopted

by the Board and those adopted by the Ontario Power Authority “(OPA)” for the input assumptions and avoided costs, and concluded as follows:

The Board agrees that, to the extent appropriate, there should be consistency in the input assumptions and avoided costs used to assess the cost effectiveness of CDM programs, regardless of the funding source. The Board is committed to exploring these issues with the OPA.

On February 15, 2008 the OPA issued its “OPA Measures and Assumptions List” (the “OPA List”), which is a collection of prescriptive input assumptions for electricity conservation measures. The accompanying document states that the OPA List was created using the “Measures and Assumptions List” from the TRC Guide as the basis. Each measure included in the list is accompanied by a substantiation sheet containing the rationale and references for all of the values.

It is the Board’s understanding that the OPA intends to review and update the list annually, and has a process which allows interested parties to submit new measures, new measure ideas and/or revisions to existing measures and values.

To date, the Board has not undertaken any work to update its own Assumptions and Measures List, with the exception of a minor revision that was made to the Industrial list to correct some errors at the time at which the Guidelines were issued. The Board believes, however, that the input assumptions should now be updated to ensure that CDM programs are evaluated using the best available information.

It is the Board’s intention to endorse the OPA List for use by distributors for the purposes of applications for new distribution rate-funded CDM programs, Lost Revenue Adjustment Mechanism (“LRAM”) and Shared Savings Mechanism (“SSM”), unless the Board is presented with compelling reasons to the contrary. Given that the OPA has already undertaken significant work to develop the OPA List, the Board is of the view that endorsing the OPA List would reduce duplication of effort, and support consistency in the measurement of the cost effectiveness of CDM programs.

Invitation to Comment

The Board is seeking comment from interested parties as to the Board’s approach for the updating of input assumptions to be used by distributors. Specifically:

- Are there issues or concerns with the Board’s plan to endorse the OPA List for use by distributors for the purposes of applications for new distribution rate-funded CDM programs, LRAM and SSM?

The Board understands that the comments of interested parties will be informed by their respective views as to the merits of the OPA List. The Board does not, however, intend to use this consultation as a forum for conducting an independent review of the OPA’s

input assumptions, and interested parties are asked to focus their comments on the Board's proposal.

At this time the Board is not proposing to review the avoided cost data that is currently used by distributors for distribution rate-funded CDM programs. The Board is of the view that development by the Board of new avoided costs would be premature at this time, given that avoided costs in relation to CDM programs are a component of the OPA's Integrated Power System Plan, which is subject to review and approval by the Board. The outcome of that review will inform the Board in relation to the issue of updating its own avoided cost data. As such, distributors should continue to use the Avoided Cost data that is posted on the Board's website.

No costs will be awarded in this consultation.

Implementation of New Assumptions

It is proposed that implementation of any new input assumptions would be in accordance with the policy set out in section 7.3 of the Guidelines which states, in part:

The timing at which changes in assumptions become effective will differ depending on the use of the assumption, as follows:

Program Design and Implementation

Distributors should design, screen and evaluate programs using the best available information known to them at the relevant time. Therefore, it is expected that distributors will incorporate new information into program design and implementation as soon as feasible, subject to relevant operational considerations. In considering the prudence of any spending in excess of an approved budget that has been tracked in a CDM variance account, the Board will consider the information available to the distributor at the time the program was implemented. That is, when amounts in a CDM variance account are being reviewed for the purposes of disposition, the Board will consider the information available to the distributor at the time the spending decision was made by the distributor. This will apply even if the input assumptions have changed since that time.

LRAM

The input assumptions used for the calculation of LRAM should be the best available at the time of the third party assessment referred to in section 7.5.

For example, if any input assumptions change in 2007, those changes should apply for LRAM purposes from the beginning of 2007 onwards until changed again.....

SSM

Assumptions used from the beginning of any year will be those assumptions in existence in the immediately prior year. For example, if any input assumptions change in 2007, those changes should apply for SSM purposes from the beginning of 2008 onwards until changed again....

By way of example, in relation specifically to programs funded through the third tranche mechanism, assume new input assumptions were approved in December 2008. The effect of the above noted policy on LRAM and SSM recovery would be:

LRAM

Any third party assessments completed in 2008 would reflect the new values, as would the calculation of LRAM, regardless of the input assumptions in place at the time of program delivery.

SSM

The SSM amount would reflect the Board's current Measures and Assumptions List, as it was in place prior to 2008.

Filing Instructions

Interested parties wishing to provide written comments must file their comments with the Board by **November 21, 2008**.

All filings to the Board in relation to this consultation must quote file number **EB-2008-0352** and include your name, postal address and telephone number and, if available, e-mail address and fax number. Two paper copies of each filing must be provided. The Board asks that participants make every effort to provide an electronic copy of their filings in searchable/unrestricted Adobe Acrobat (PDF) format and to submit their filings through the Board's web portal at www.errr.oeb.gov.on.ca. If you do not have a user ID, please visit the "e-filing services" webpage on the Board's website at www.oeb.gov.on.ca, and fill out a user ID password request. Additionally, interested parties are requested to follow the document naming conventions and document submission standards outlined in the document entitled "RESS Document Preparation – A Quick Guide" also found on the "e-filing services" webpage. If the Board's web portal is not available, electronic copies of filings may be filed by e-mail at BoardSec@oeb.gov.on.ca. Those who do not have internet access should submit the electronic copy of their filing on CD or diskette.

Filings must be received by **4:45 pm** on the required date.

All materials related to this consultation will be posted on the "OEB Key Initiatives" portion of the Board's web site at www.oeb.gov.on.ca. The material will also be available for public inspection at the Board's office during normal business hours.

Questions relating to this consultation can be directed to:

Alison Cazalet
Policy Advisor, Energy Infrastructure Policy
Regulatory Policy Development

Phone: 416-440-7684
E-mail: alison.cazalet@oeb.gov.on.ca .

The Board's toll-free number is 1-888-632-6273, and the Market Operations Hotline is 416-440-7604.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary