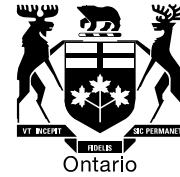


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BY EMAIL & WEB POSTING

April 26, 2012

**To: All Electricity Distributors
All Participants in the Conservation and Demand Management Code and
Target Proceedings EB-2010-0215 and EB-2010-0216**

**Re: Conservation and Demand Management (CDM) Guidelines for Electricity
Distributors (EB-2012-0003)**

The Ontario Energy Board (the "Board") today has issued its Conservation and Demand Management ("CDM") Guidelines for Electricity Distributors (the "CDM Guidelines"). The CDM Guidelines have been informed by comments received from electricity distributors and by participants in the CDM Code and CDM Target proceedings. The CDM Guidelines provide more specific guidance on certain provisions in the CDM Code and what evidence should be filed by distributors in support of an application for Board-Approved CDM programs.

Background

On January 5, 2012, the Board advised parties of the development of the CDM Guidelines and invited interested stakeholders to provide written comments.

The Board received 16 written submissions in total, from a variety of stakeholders. After reviewing the written submissions, the Board has concluded that no material changes are required. Minor changes have been made to improve clarity and understanding, as well as, to provide consistency with the Ontario Power Authority's ("OPA") process for tracking and reporting various CDM related information. A summary of the written submissions and the Board conclusions are set out below. The submissions are posted on the Board's website at the [CDM Guidelines webpage](#).

On April 18, 2012, the Ontario government proposed to merge the OPA and the Independent Electricity System Operator into a single organization. This may result in

future amendments to some of the Board's regulatory instruments, such as these CDM Guidelines. Nevertheless, the Board is releasing these CDM Guidelines now to provide clarity to distributors on the Board's expectations with respect to CDM.

Summary of Comments and Revisions

In determining the appropriate revisions to the CDM Guidelines, the Board considered the comments received by stakeholders in the context of the Minister of Energy and Infrastructure's CDM Directive, dated March 31, 2010 and the Board's CDM Code, issued September 16, 2010. The scope of this proceeding was to develop CDM Guidelines consistent with this existing CDM framework.

Comments on the CDM Guidelines

Section 1: Overview

Several stakeholders suggested that the Board remind parties, at the outset of the guidelines, that all elements of the CDM Guidelines dated March 28, 2008 (EB-2008-0037) (the "2008 CDM Guidelines"), except for LRAM and SSM for pre-2011 CDM programs, are superseded by this version of the CDM Guidelines and the CDM Code. In order to provide added clarity, the Board has included this reminder in the overview section to make clear that the 2008 CDM Guidelines are no longer to be relied upon by distributors outside of any pre-2011 CDM related activities.

The Board also received several comments from distributors noting that further methods and approaches of promoting energy efficiency should be adopted by the Board. The Board reminds stakeholders that the purpose of this consultation is to finalize the CDM Guidelines to be used from 2011 to 2014, and that they must be consistent with the CDM Directive and the resultant CDM Code.

Section 2: Timeline

Comments were received from stakeholders noting that the Board should ensure continuity of CDM programs beyond December 31, 2014. The Board acknowledges that the framework for CDM beyond 2014 has yet to be developed and that stakeholders will be seeking continuity; however, that is beyond the scope of this consultation. Furthermore, the Board established the CDM Code consistent with the CDM Directive that clearly establishes a timeframe of 2011 to 2014.

Section 3: CDM Targets

Stakeholders suggested that the Board provide further clarity in the guidelines regarding the status of Time-of-Use (“TOU”) implementation. The Board has revised this section to clearly state that for the purposes of the CDM targets, the Board has deemed TOU implementation as a Board-Approved CDM program. Distributors are not required to file an application for a Board-Approved CDM program associated with the general implementation of TOU pricing. The Board notes that, as explained in the CDM Guidelines, if a distributor wishes to file an application for an incremental TOU program, it must follow the requirements outlined in the CDM Code and the CDM Guidelines.

The Board has further revised the guidelines to indicate that the verified savings arising from the TOU evaluation study are eligible for the performance incentive. Distributors will be required to follow the requirements for filing applications for the performance incentive as outlined in the CDM Code.

Several stakeholders submitted comments suggesting that the evaluation of TOU savings should be a collaborative effort that includes LDCs and, that a timeline for completing the TOU evaluation should be established. The Board notes that the evaluation of TOU will be conducted by the OPA in the manner and the timeframe that the OPA determines is the most appropriate. The Board notes that consistent with the April 23, 2010 Letter of Direction from the Minister of Energy to the OPA, it has been the OPA’s approach to take all reasonable steps to collaborate with LDCs.

The Board acknowledges the comments regarding the OPA’s EM&V results, for both TOU and other OPA Province-Wide CDM Programs, and considers the OPA’s evaluation results to be final. The Board does not envision the need for any secondary evaluations to be conducted on TOU impacts.

With regard to the section on pre-2011 OPA-Contracted Province-Wide CDM programs, the Board has offered further clarity around the savings that will be allowed to be counted towards a distributor’s CDM targets. The Board will allow distributors to count the new savings arising from the program initiatives completed, pursuant to the terms of the program, in or after 2011 against their CDM targets. The Board understands that this will include the following program initiatives: Electricity Retrofit Incentive Program; High Performance New Construction; Multifamily Energy Efficiency Rebates; Toronto Hydro Business Incentive Program; City of Toronto Better Buildings Partnership Program for Existing Buildings; and, BOMA CDM.

Section 4: Duplication

The Board has revised the duplication section in order to provide further clarity. The Board notes that there are four primary OPA-Contracted Province-Wide CDM programs: Residential, Commercial and Institutional, Industrial, and Low-Income. Within these programs are a number of initiatives with specific eligibility requirements, program design elements, and incentives. The Board agrees that it is appropriate to compare proposed Board-Approved CDM programs with the OPA’s Province-Wide CDM

programs and initiatives. This is consistent with the approach previously taken by the Board.

The Board has also provided parties with further clarity in the event that a Board-Approved CDM program is adopted by the OPA as a Province-Wide offering. The Board is of the view that if a Board-Approved CDM program is subsequently adopted by the OPA, the Board-Approved program will not be considered duplicative for the originating distributor(s) only.

The Board acknowledges the comments regarding the duplication section as a whole and reminds stakeholders that the Board is bound by the CDM Directive. The Board views the OPA-Contracted Province-Wide CDM programs as being the lead programs and initiatives for distributors to rely on in achieving their CDM targets. However, for any programs and initiatives that do not duplicate these offerings, distributors are encouraged to make an application for a Board-Approved CDM program.

The OPA, in its comments to the Board on the draft CDM Guidelines, noted that it has already begun working with LDCs to address their need for additional savings. Thus far, the OPA has reviewed the proposed Board-Approved CDM programs it has received to determine whether:

- The existing Province-Wide programs already address the proposed need;
- The existing programs may be modified to incorporate the LDC idea, in which case, the OPA, working with the LDC, has made proposals to modify the program (the OPA notes that it is expected that the LDC working groups will play a role in this process); and,
- A proposed Board-Approved program is not duplicative, in which case the OPA would express the view that, in its opinion, the program was not duplicative.

The Board, as outlined in Section 4 of the CDM Guidelines, expects that distributors will seek the OPA's assessment on duplication for any proposed program for Board approval to allow for a more efficient regulatory process.

Section 5: OPA Program Establishment

The Board is still of the view that OPA-Contracted Province-Wide CDM programs will be considered established once the program schedules have been made available publicly and posted on the OPA's webpage.

Section 6: Reporting

The Board only received a couple of comments regarding reporting. The Board will consider the OPA's evaluation results of programs to be final and does not expect a second evaluation to be conducted on these programs.

Section 7: Board-Approved Program Types

The Board received comments from parties that the OPA's Program Administration Budget (PAB) is not intended for all educational activities. Subsequently, the Board has made revisions to the CDM Guidelines in response to these comments to better reflect the nature of the PAB and its relation to educational activities.

The Board has also added a new subsection under Board-Approved Program Types titled Pilot CDM projects funded by the OPA. The Board acknowledges that there are pilot projects undertaken by distributors and funded through the OPA. The Board is of the opinion that it is reasonable to allow distributors to count the new savings arising from pilot projects completed in or after 2011 against their CDM targets given the intent of these programs to inform the development of OPA-Contracted Province-Wide Programs.

Section 8: Cost Effectiveness

The Board has not made any changes to this section and reminds distributors that they are to use the OPA's cost effectiveness tests, as outlined in the CDM Code.

Section 9: Accounting Treatment

One party sought flexibility to overspend a Board-Approved program by 10% to 15% if the program has a positive TRC. The Board has considered this and remains of the view that any overspending in relation to a Board-Approved CDM program will require Board approval for recovery.

Section 10: Program Evaluation, Measurement & Verification

The Board has not made any changes to this section. The CDM Directive states that the Board shall require distributors to use the OPA protocol process when conducting EM&V of Board-Approved CDM programs.

Section 11: Program Development Costs

Several parties provided comments regarding program development costs and requested that the Board allow for a separate process to enable distributors to recover these costs. The Board will not amend this section. The Board expects that development costs will generally not be material and that only costs for programs approved by the Board should be recoverable.

Section 12: Other Funding Sources

This section is intended to allow those distributors who implement CDM programs using funding from sources other than the Global Adjustment Mechanism (GAM) the ability to count the savings arising from these programs against its CDM targets. Programs that use other funding sources are still subject to the review process set out by the CDM Directive and CDM Code.

The Board is guided by the CDM Directive and must adhere to the sections outlined therein. The Board must require parties to show that the programs are not duplicative and that they remain cost effective on a net basis.

The Board has revised the section regarding the treatment of programs funded through other sources. The Board welcomes applications for Board-Approved CDM programs that propose to use partial funding from the GAM with the remaining program costs offset by funding from other sources.

The Board has also responded to inquiries regarding the manner in which cost effectiveness will be calculated for programs that are funded through other sources. The Board will take into consideration the net impacts on the electricity ratepayer, and the cost effectiveness test is to be based on the program costs net of funding from other sources.

Board-Approved CDM programs that rely on other funding sources will be treated in the same manner as all other Board-Approved CDM programs for the purposes of LRAM, incentives and the CDM targets.

Section 13: Lost Revenue Adjustment Mechanism (“LRAM”)

The Board has made minor revisions to the section on the new LRAM. The Board has clarified that distributors will be expected to report the balance in the LRAMVA as part of the Reporting and Record Keeping Requirements (RRR) on an annual basis.

The Board has also responded to comments from stakeholders and revised the Guidelines to remove the requirement for distributors to calculate the full year impact of CDM programs on a monthly basis. The Board is mindful of the fact that distributors will only receive results from the OPA on a quarterly and sometimes annual basis.

The Board has also provided further clarity with respect to the calculation of LRAM and has noted that distributors will be expected to exclude rate riders or adders that are subject to a subsequent true-up in the calculation of LRAM.

The Board recognizes that some distributors may be unsure as to the process for when to file for disposition of the amounts in its LRAMVA. To assist distributors in assessing when to file for disposition, the Board has provided a few examples below:

- Incentive Regulation Mechanism (“IRM”) 2013 – distributors may apply for disposition of LRAMVA if the distributor determines that the amount in the account is significant. The Board has allowed distributors to determine if an amount is significant to allow for greater flexibility and rate mitigation. Lost revenues will be compared to the CDM impacts approved in the LDC’s last load forecast. If no CDM impacts were included in the last load forecast, the entire lost revenues are eligible to be recovered.
- Cost of Service Rate Applications 2013 – distributors must apply for disposition of LRAMVA amounts. Lost revenues will be compared to the CDM impacts approved in the LDC’s last load forecast. If no CDM impacts were included in the last load forecast, the entire lost revenues are eligible to be recovered. The Board expects all distributors to be explicit in applications about the CDM component included in load forecasts.

The Board has also provided appendices to the CDM Guidelines to assist distributors in understanding what lost revenues are eligible for recovery and when they are able to file for recovery of prior year lost revenues; and to provide details on the accounting for the LRAMVA.

Comments were received requesting that the LRAMVA be optional to allow for flexibility and not at the detriment of distributors who effectively incorporate CDM impacts into its load forecast. The Board is of the view that the LRAMVA provides symmetry and transparency for all distributors and is necessary to ensure that both the distributor and the rate payer are kept whole for actual, verified savings. The Board notes however, that if the balance in the LRAMVA is an amount recoverable by the distributor, it can choose not to recover these amounts.

The Board received a comment requesting that all OPA programs that are marketed and delivered in a distributor’s service territory be eligible for LRAM, including those in which the distributor had no involvement. The Board is of the belief that it is only appropriate for the distributor to be allowed to collect LRAM on those programs implemented by the distributor, within its licensed service area, including programs delivered by the distributor itself and/or programs delivered for the distributor by a third

party (under contract with the distributor, either in relation to a Board-Approved CDM program, or an OPA-Contracted Province-Wide CDM program).

The Board has also included further guidance on the treatment for LRAM and SSM amounts associated with pre-CDM Code activities. The Board is of the view that LRAM and SSM for pre-CDM Code activities should now be complete, outside of the persisting historical impacts realized after 2010 for those distributors under IRM.

Cost Awards

The Board will address the issue of cost awards for this consultation by separate correspondence to be issued shortly.

All documents related to this consultation are available publicly on the Board's website at www.ontarioenergyboard.ca and at the office of the Board during normal business hours. The Board's toll free number is 1-888-632-6237.

Yours truly,

Original Signed By

Kirsten Walli
Board Secretary

Attachments: Conservation and Demand Management Guidelines for Electricity Distributors