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# Conservation and Demand Management Guidelines for Electricity Distributors

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# 1 INTRODUCTION

## 1.1 Purpose and Applicability

This document, the *Conservation and Demand Management Guidelines for Electricity Distributors (2021 CDM Guidelines)*, provides updated Ontario Energy Board (OEB) guidance on the role of conservation and demand management (CDM) for rate-regulated electricity distributors, taking into account the provincial 2021-2024 CDM Framework and previous provincial CDM frameworks, and addressing the treatment of CDM activities in distribution rates.<sup>1</sup> Certain aspects of the 2021 CDM Guidelines are also relevant to rate-regulated transmitters and natural gas distributors.<sup>2</sup>

The 2021 CDM Guidelines place a greater emphasis on the use of CDM activities by distributors to address system needs and avoid or defer investments in traditional wires infrastructure than previous iterations of the CDM Guidelines.

The 2021 CDM Guidelines replace the [2015 CDM Guidelines](#).<sup>3</sup>

The 2021 CDM Guidelines are effective as of the date of issuance. Rate applications filed by electricity distributors after this date are expected to be consistent with the 2021 CDM Guidelines, or to provide an explanation for any divergence. The OEB will take account of the 2021 CDM Guidelines in its review of rate applications; however, the 2021 CDM Guidelines are not binding on the OEB's determination, which will also take into account the unique circumstances of a distributor's application.

Elements of the CDM Guidelines relevant to distribution rate applications are also incorporated into Chapters 2, 3, and 5 of the OEB's *Filing Requirements for Electricity Distribution Rate Applications* (the [Filing Requirements](#)). The Filing Requirements are typically updated on an annual basis. In case of any discrepancies between the CDM

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<sup>1</sup> Provincial CDM frameworks are discussed in section 1.2. CDM can refer to activities administered by the IESO and funded through the Global Adjustment, or to distribution rate-funded activities. Where necessary, the intended usage is distinguished throughout this document.

<sup>2</sup> Chapter 4 on addressing regional needs through CDM, and chapter 9 on co-ordination with natural gas demand-side management programs, respectively.

<sup>3</sup> EB-2014-0278. Originally issued on December 19, 2014, with minor updates made on August 11, 2016. The term "CDM Guidelines" (without a year) is used in this document in cases where the intended meaning does not refer to a specific version of the CDM Guidelines.

Guidelines and the Filing Requirements, guidance in whichever document has been more recently updated will generally prevail.

The CDM Guidelines may be updated in the future as needed to account for future developments.

## 1.2 Provincial CDM Frameworks

In recent years, provincial electricity CDM activity has been implemented primarily through CDM frameworks established by directives from the Minister of Energy, with program activity overseen by the Independent Electricity System Operator (IESO). CDM activity under these frameworks has been funded through the Global Adjustment charge, paid for by all Ontario electricity customers, and not through distribution rates. As shown below in Table 1, the role of electricity distributors in these frameworks has varied.

The 2021 CDM Guidelines address a distributor's role and interaction with both the current provincial CDM framework (the 2021-2024 CDM Framework) and the wind-down of previous CDM frameworks.

The 2021-2024 CDM Framework was established by a [directive](#) issued on September 30, 2020 from the Minister of Energy, Northern Development and Mines to the IESO. On January 4, 2021, the IESO released its [2021-2024 Conservation and Demand Management Framework Program Plan](#) (the 2021-2024 CDM Plan), which provides an overview of the CDM programs to be delivered by the IESO in response to the Minister's directive.

Under the 2021-2024 CDM Framework, CDM program funding, design, and delivery is centralized under the IESO. Programs focus on meeting electricity system needs, including through provincial peak demand reductions and targeted approaches to address regional and local system needs. The Minister's directive states that programs will be targeted to those who need them most, including commercial, industrial, institutional and on-reserve First Nations consumers, as well as low-income and income-eligible consumers. The 2021-2024 CDM Plan provides a breakdown of program budgets and energy savings and peak demand targets expected to be achieved through the four-year framework.

The 2021-2024 CDM Framework follows two previous CDM Frameworks. The Conservation First Framework (CFF) was originally intended to run from January 1, 2015 to December 31, 2020, but was revoked as a result of the Ministry of Energy, Northern Development and Mines' [directive](#) of March 20, 2019. An Interim Framework was established that took effect from April 1, 2019 to December 31, 2020.

The three frameworks and the role of distributors in each framework are summarized in Table 1.

**Table 1: Provincial CDM Frameworks**

CDM Framework	Dates in Effect	Distributor Role
Conservation First Framework (CFF)	January 1, 2015 to March 31, 2019 (originally intended to run from January 1, 2015 to December 31, 2020) <sup>4</sup>	Significant role in program administration and delivery, including delivery of province-wide programs, and opportunities to deliver local programs. Distributor costs for these CDM activities funded through the Global Adjustment.
Interim Framework	April 1, 2019 to December 31, 2020	Most programs centralized under the IESO (no Interim Framework funding to support centralized programs available for distributors), with limited funds available for distributors to apply to design and deliver cost-effective local programs through Local Program Fund that are not duplicative of IESO programs.
2021-2024 CDM Framework	January 1, 2021 to December 31, 2024	Programs centralized under the IESO, no funding through the Global Adjustment for distributors, opportunities for some distributors to partner with the IESO in Local Initiatives Program.

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<sup>4</sup> While new program activity under the CFF ceased as of March 31, 2019, projects initiated under the CFF prior to this date may come into service at a later date. The wind-down period has been extended several times, due to the COVID-19 outbreak, by Ministerial directives to the IESO. In such case, savings are attributable to the CFF.

## 2 TYPES OF DISTRIBUTION RATE-FUNDED CDM ACTIVITIES

CDM activities potentially eligible for distribution rate funding include those that reduce instantaneous electricity demand (measured in kilowatts or kilovolt-amperes) on a utility's distribution system, or a portion of that system.<sup>5</sup>

As discussed in chapter 3, distribution rate-funded CDM activities are expected to address a specific system need, at the distribution level or the regional level. As system needs are often driven by peak electricity demand, it is anticipated that many CDM activities may be designed to reduce peak demand. CDM activities may also be geotargeted to the portion of the distribution system that is experiencing a need/constraint.

Examples of CDM activities that distributors may consider for the purpose of addressing system needs include:

- Energy efficiency programs
- Demand response programs
- Programs that improve the efficiency of the distribution system and reduce distribution losses
- Energy storage (in front of or behind the meter)
- Behind-the-meter generation

This list is not intended to be exhaustive, in order to provide latitude for new and innovative CDM activities.

CDM activities may potentially include non-distributor owned, behind-the-meter solutions, where the cost (and benefit) of the solution may be shared between the distributor and another party.<sup>6</sup> In such cases, any request for funding through

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<sup>5</sup> These activities may also reduce overall electricity consumption (measured in kilowatt-hours).

<sup>6</sup> The OEB's Framework for Energy Innovation (FEI) Working Group (EB-2021-0118), through the DER Usage workstream, is investigating and supporting utilities' use of distributed energy resources (DERs)

distribution rates must be supported by the value proposition to the distributor's customers.

Distributors are expected to take into account the IESO's CDM programs, and ensure that any proposed distribution rate-funded CDM activity is not duplicative of IESO programs, in order to avoid marketplace confusion and ensure the prudent use of customer funds. The OEB will ultimately determine if a proposed distribution rate-funded CDM activity is in the public interest and results in just and reasonable rates.

Distributors are encouraged to discuss any concerns with the IESO regarding potential duplication prior to applying for distribution rate funding.

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that they do not own as alternatives to traditional wires solutions to meet distribution needs. Guidance arising from the activities of the FEI Working Group may be incorporated into the CDM Guidelines at a future date.



## 3 ROLE OF CDM IN DISTRIBUTION SYSTEM PLANNING

### 3.1 System Planning

The 2021 CDM Guidelines support an approach to system planning, at the regional and local levels, that requires consideration of the role of CDM in meeting system needs. This direction is consistent with the [November 15, 2021 Mandate Letter](#) from the Minister of Energy to the Chair of the OEB that stressed the importance of developing policies that support the adoption of non-wires alternatives to traditional forms of capital investment.

Distributors are required to make reasonable efforts to incorporate consideration of CDM activities into their distribution system planning process, by considering whether distribution rate-funded CDM activities may be a preferred approach to meeting a system need, thus avoiding or deferring spending on traditional infrastructure.<sup>7</sup>

Key steps distributors are encouraged to take to meet this objective include:

- When assessing system needs, providing sufficient lead time to enable consideration of CDM activities.
- Defining the types of system needs where CDM activities have the greatest potential to meet the system need.
- Ensuring a process is in place to consider CDM as a potential solution for these types of system needs and to compare CDM to traditional wires solutions.

Distribution system plans incorporate a distributor's expectations regarding load and customer growth (load forecasting, including the impact of CDM activities by the distributor and by the IESO is discussed in chapter 7). The 2015 CDM Guidelines required that the infrastructure investments to be deferred must be for those areas of the distribution system where growth is anticipated; this is no longer a restriction in the 2021 CDM Guidelines, and distributors may also consider CDM activities in other circumstances (e.g., system renewal projects) if appropriate.

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<sup>7</sup> As discussed further in chapter 4, this may include addressing a regional system need, even if the CDM activities take place at the distribution level.



Distributors are also encouraged to consider CDM activities for system needs that are driven by specific customers and funded by customer capital contributions, where there is a reasonable expectation that CDM may reduce the total cost and required customer contribution. Distributors should take into consideration expressed customer preferences, including a preference and willingness to pay for a traditional infrastructure solution instead of any proposed alternatives.

A distributor's distribution system plan should describe how it has taken CDM into consideration in its planning process. The degree of consideration of CDM in meeting system needs should be proportional to the expected benefits, and will likely vary across distributors, taking into account the size and resources of a distributor. CDM will not be a viable alternative for all types of traditional infrastructure investments. Distributors are encouraged to take account of learnings from CDM activities that have been undertaken by other electricity distributors, in Ontario or elsewhere.

Distributors may also take account of relevant learnings from the OEB's [Decision and Order](#) establishing an Integrated Resource Planning (IRP) Framework for Enbridge Gas Inc., and any subsequent efforts to implement the IRP Framework.<sup>8</sup> The IRP Framework provides direction on the OEB's requirements as Enbridge Gas considers alternatives to traditional pipeline infrastructure, including demand-side alternatives such as geotargeted energy efficiency and demand response, to meet its system needs. The IRP Framework addresses many of the same topics relevant to the role of CDM in electricity distribution system planning, such as needs identification, comparison and evaluation of alternatives, and cost recovery.

The 2021 CDM Guidelines continue to enable distributors to seek distribution rate funding for CDM activities for the purpose of meeting identified distribution system needs or regional needs. CDM activities that would only benefit participating customers (e.g., by providing incentives for energy-efficient equipment for the sole purpose of reducing the electricity bills of participating customers) but do not address a distribution system need or a regional need are not eligible for distribution rate funding. The 2021-2024 CDM Framework directive notes that, under the Interim Framework, electricity CDM programs were refocused to those who need them most, and that under the 2021-2024 CDM Framework, CDM programs delivered by the IESO will continue to be

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<sup>8</sup> Decision and Order, Integrated Resource Planning Proposal (EB-2020-0091), July 22, 2021

targeted to these groups, including commercial, industrial, institutional and on-reserve First Nations consumers, as well as low-income and income-eligible consumers.

### **3.2 General Evidentiary Requirements for CDM Activities**

The OEB will evaluate requests for CDM funding consistent with the OEB's approach to evaluating other proposed expenditures in a rates application, for which evidence is provided in the distribution system plan (DSP). The level of detail filed by a distributor to support a proposed CDM activity should be proportional to the materiality of the investment. The OEB's evaluation criteria for proposed distribution system investments that meet the defined materiality threshold for a distributor are described in Chapter 5 of the Filing Requirements, as is the supporting evidence that distributors should file for proposed projects.

However, several evidentiary requirements set out below are specific to CDM activities.

A distributor should explain the proposed CDM activity in the context of the DSP, including providing details on the system need that is being addressed, any infrastructure investments that are being avoided or deferred as a result of the CDM activity, and the prioritization of the proposed CDM activity relative to other system investments in the DSP.

A distributor should provide evidence as to why the proposed CDM activity is the preferred approach (alone or in combination with an infrastructure solution) to meeting a system need, including an assessment of the projected benefits to customers relative to cost impacts.

In the case of a CDM activity that is driven by a specific customer and funded by a customer capital contribution, the distributor should provide details on engagement with the customer on options, and the customer's preference.

The business case for a CDM activity may also include consideration of costs and benefits upstream of a distributor (e.g. a distribution CDM activity intended to address a regional need), or realized by another party. In such cases, the OEB would expect that the proposed approach to cost-sharing between the distributor and the other party/parties would be informed by this analysis.

At this time, the OEB is not providing more detailed guidance specifying the cost-effectiveness approach that distributors should use to assess and compare the costs



and benefits of a CDM activity relative to traditional infrastructure solutions. A distributor should describe the approach it has used in its analysis. The Framework for Energy Innovation's (FEI's) near-term activities include defining an approach to measuring the benefits of distributed energy resources relative to costs and assessing the value of distributed energy resources relative to traditional distribution investments.<sup>9</sup> This section of the CDM Guidelines may be updated in the future based on learnings from the FEI, if appropriate.

Additional guidance regarding proposed CDM activities by distributors to address regional needs is provided in chapter 4.

### 3.3 Timing of CDM Applications

#### Applications Within Rebasing

Distributors on Price Cap IR or Custom IR rate-setting methodologies are strongly encouraged to make funding requests for any proposed CDM activities as part of cost-based (rebasing) rate applications, where possible. The rebasing application process and evidentiary requirements<sup>10</sup> enable the OEB to assess the proposed CDM activity and funding request in the context of the system needs identified in the distributor's distribution system plan, and to incorporate forecast impacts of CDM activity on the distributor's revenue requirement and load forecast.

Distributors using the Price Cap IR rate-setting methodology may also propose, as part of their cost of service application, CDM activities that are expected to come into service during the subsequent Price Cap IR term, similar to the approach used for Advanced Capital Module (ACM) projects. As with ACM projects, the need for and prudence of these projects will be assessed during the cost of service application, based on the information in the Distribution System Plan.

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<sup>9</sup> [Letter](#) of May 10, 2021, Appendix A

<sup>10</sup> The OEB has specific Filing Requirements for cost of service rate applications (chapter 2 of the Filing Requirements). Rate applications by utilities using the Custom IR rate-setting methodology are expected to be informed by the cost of service Filing Requirements.

## Applications Outside Rebasing

The OEB will consider applications for CDM activities outside of rebasing applications, if necessary. Such an application may be required if the proposed CDM activity would have rate impacts prior to rebasing:

- to address a system need that is currently unfunded
- to address a previously identified system need and replace an infrastructure solution for which funding is built into existing rates
  - this may result in an increase or decrease to rates for differences in project costs or rate treatment between the original solution and the CDM activity

Circumstances that may warrant an application outside of a rebasing application could include:

- time-sensitive opportunities that would be lost if waiting until rebasing (e.g., procurement of incremental resources to meet local distribution system needs through the IESO's Local Initiatives Program)
- new opportunities to pursue CDM activities under the 2021 CDM Guidelines that were not viable or permitted under the previous version of the CDM Guidelines that was effective at the time of a distributor's most recent rebasing
- a joint application from multiple distributors to address a regional need

The option to file a request for funding for CDM activities outside of rebasing is available to distributors using any rate-setting methodology (Price Cap IR, Custom IR, Annual IR Index). Distributors using the Price Cap IR or Annual IR Index rate-setting methodologies may choose to file a request for funding for CDM activities outside of rebasing either as part of an incentive rate-setting mechanism (IRM) application, or as a stand-alone application, while distributors using the Custom IR rate-setting methodology may file a request for funding for CDM activities outside of rebasing either as part of a Custom IR update application, or as a stand-alone application. In either case, it is expected that an application requesting funding for CDM activities would be heard by a panel of Commissioners, not by an employee of the OEB under [delegated authority](#).

The OEB will apply the principles of materiality, need, and prudence to distributor requests for funding for CDM activities between rebasing applications. The details of how to apply these principles will be addressed within the context of specific applications.<sup>11</sup>

To demonstrate need, a distributor should identify the system need being addressed within the context of the distributor's distribution system plan (including a targeted update to the distribution system plan), the incrementality of costs relative to what is built into existing rates, and (for distributors using Custom IR or Price Cap IR rate-setting methodologies) an explanation of why the CDM activity was not included in the most recent rebasing application.

### 3.4 Cost Recovery

Cost recovery for CDM activities included as part of rebasing rate applications will generally be addressed through the updated base rates set in that proceeding.

The default treatment of costs and the approach to utility remuneration is the same for CDM activities as for other distribution system expenditures. Distributors should assign costs for CDM activities to capital expenditures or to operating expenses in accordance with their capitalization policy.<sup>12</sup> Proposed CDM activities can therefore potentially include a capital expenditure component, if consistent with a distributor's capitalization policy and subject to the OEB's approval. Distributors should address any considerations regarding allocation of the cost of CDM activities to customer classes, and rate design.

For CDM activities included in cost of service rate applications that are expected to come into service during the subsequent Price Cap IR term, the cost of service application should include the forecasted costs of the CDM activity, but cost recovery

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<sup>11</sup> The OEB's [Advanced Capital Module report](#) (EB-2014-0219, *Report of the Board: New Policy Options for the Funding of Capital Investments: the Advanced Capital Module*. September 18, 2014) establishes criteria for materiality, need, and prudence that distributors proposing amounts for recovery for capital projects by way of an ACM or an Incremental Capital Module (ICM) must meet. However, there are some key differences between ACM/ICM projects and CDM activities (e.g., the likelihood that the cost recovery approach for a CDM activity may include both capital and OM&A costs; the lack of an ACM/ICM option for utilities using the Custom IR and Annual Index IR rate-setting methodologies).

<sup>12</sup> Chapter 2 of the Filing Requirements requires distributors to file their capitalization policy with the OEB as part of cost of service applications.

(rate riders) will be addressed during a subsequent Price Cap IR application. Similar to the approach used for ACM projects, if the updated cost projection for the CDM activity is materially different than the amount pre-approved in the prior cost of service application (i.e.,  $\pm$  30% difference in costs), the distributor will be required to re-file the business case for the activity.

For applications for CDM funding filed outside of rebasing, distributors should propose an approach for cost recovery (including issues of cost allocation and rate design) and identify whether any funding to address the identified system need is already included in existing rates. This will assist the OEB in determining, on a case-by-case basis, whether the proposed spending is incremental and should be eligible for cost recovery.

Distributors and other stakeholders have expressed support for a results-based approach to remuneration for CDM activities. This subject is within the scope of the OEB's FEI consultation.<sup>13</sup> At this time, the OEB will allow a distributor to propose a results-based approach to remuneration in an application for a CDM activity. To support such a proposal, the distributor should file an appropriately detailed proposal regarding performance measures, targets, and its approach to revenue adjustments. The OEB may revise this section of the CDM Guidelines in the future to incorporate any additional learnings from the FEI.

A distributor may also have an opportunity for its CDM activities to earn revenues through the IESO's wholesale markets, reducing the costs that need to be funded through distribution rates. If applicable, a distributor should describe its proposed approach to these revenues in its application. A distributor may request full cost recovery and indicate that any revenues earned through IESO markets will be treated as a revenue offset used to lower distribution rates, or an alternative approach that considers the allocation of risk between the distributor and its customers. Depending on circumstances, the latter approach may improve the business case for a rate-funded CDM activity.

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<sup>13</sup> On May 10, 2021, the OEB issued a [letter](#) confirming the near-term workstreams for the FEI. One workstream (DER Usage) is intended to investigate and support utilities' use of distributed energy resources (DERs) they do not own as alternatives to traditional wires solutions to meet distribution needs and will include examining appropriate incentives for distributors to adopt DERs for distribution uses that do not require equity investment by the utility. The letter also indicated the expectation that, among other matters, issues relating to utility remuneration would be considered in subsequent phases of FEI.

## 4 Distributor CDM Activities to Meet Regional Needs

### 4.1 Background

Regional electricity system planning supports a reliable supply of electricity to Ontario's 21 planning regions. Regional planning looks at the unique needs of each region, and considers conservation, generation, transmission and distribution, and innovative resources to meet these needs.

The OEB endorsed a formalized [regional planning process](#) in 2013 involving transmitters, distributors, and the IESO that has been implemented across the province.

In December 2020, the OEB initiated a [consultation](#) to undertake a Regional Planning Process Review.<sup>14</sup> The OEB re-constituted its Regional Planning Process Advisory Group (RPPAG) to provide recommendations to the OEB to make the regional planning process more efficient and effective.

In November 2021 (in advance of a broader report with recommendations to improve the regional planning process), the [RPPAG provided recommended changes](#) to the CDM Guidelines to the OEB to address potential barriers to CDM measures in regional planning. The OEB considered these recommendations (as well as comments from other stakeholders on this topic) in developing the 2021 CDM Guidelines.

### 4.2 Applications to Address Regional Needs

Distributors may request distribution rate funding for CDM activities at the distribution level that are intended to address (in whole or in part) regional needs. This is inclusive of CDM activities where the system need being addressed (and the wires infrastructure being avoided or deferred) is entirely at the transmission level.

Distributors seeking distribution rate funding for CDM activities to address a regional need should describe how their application has been informed by the regional planning process, whether the CDM activity has been identified as a preferred solution through this process, and whether it is supported by other participants in the regional planning process (i.e., the IESO, lead transmitter, and other participating distributors).

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<sup>14</sup> EB-2020-0176





CDM activities to address regional needs raise issues of coordinating CDM activities and cost responsibility. If a CDM activity must be implemented by multiple rate-regulated distributors/transmitters to meet the regional need (otherwise a potentially more costly traditional infrastructure solution will not be avoided or deferred), and each party requires OEB approval of new spending, then the OEB will require the participants to submit a joint application, so that the OEB can review the proposed solution in its entirety.

### **4.3 Cost Responsibility for CDM Activities Addressing Regional Needs**

Even in cases where only one distributor would be implementing a CDM activity to address a regional need, issues of cost responsibility (i.e., allocation) may need to be addressed.

Some funding may be available through an IESO program (funded through the Global Adjustment), in cases where the CDM activity is aligned with the IESO's priorities in meeting Ontario's electricity system needs. In particular, the IESO's Local Initiatives Program (discussed in chapter 5) will deliver CDM savings in targeted areas of the province, as identified through the regional planning process. Prior to applying for distribution rate funding under the CDM Guidelines, a distributor should confirm whether funding (in part or in full) is available through the Local Initiatives Program or another IESO program. As discussed in section 3.4, a distributor may also have an opportunity for its CDM activity to earn revenues through the IESO's wholesale markets, reducing the costs funded through distribution or transmission rates.

The OEB is then responsible for reviewing the cost and associated rate impacts of the CDM activity that would be borne by rate-regulated transmitters and distributors, i.e., net of any funding provided by the IESO or other sources.

Applicants requesting funding for a CDM activity to address a regional need should provide details on the proposed cost responsibility approach. It should be justified if it differs from the default approach discussed below. Applicants are strongly encouraged to reach agreement on the proposed cost approach to cost responsibility with any other rate-regulated distributors and transmitters that could incur costs, prior to applying to the OEB.

The OEB expects that the default approach to cost responsibility, where it involves CDM activities of one or more distributors to address regional needs (net of any funding





provided by the IESO), would be aligned with the approach in section 6.3 of the OEB's [Transmission System Code](#) (TSC) for transmission (wires) investments, i.e., proportional benefit. In particular, sections 6.3.13 and 6.3.15 of the TSC set out how the costs should be attributed among the distributor(s) in relation to transmission connection investments that are made to meet their needs, and section 6.3.18 of the TSC sets out how cost responsibility should be addressed in cases where the transmission connection investment also addresses a broader transmission network system need.

If a broader transmission network need is addressed, some portion of the costs for a transmission investment is attributed to the network pool, to be recovered from all transmission customers through the transmission network charge. A similar approach could apply to a CDM activity, including attributing a share of cost responsibility to the transmitter. Similar to the requirement under section 6.3.18 of the TSC, distributors will need to provide confirmation from the IESO that the CDM activities will also address a broader transmission network need.

That said, the OEB provides flexibility for applicants to propose modifications to the default cost responsibility approach. An applicant should describe the expected local and regional benefits, and how this has informed the proposed approach to allocate the costs.

#### **4.4 Incorporating CDM Activities Into Regional Planning Forecasts**

Distribution-rate funded CDM activities (whether undertaken to meet local and/or regional needs) will have an impact on the regional load forecast used in the needs assessment and the integrated regional resource planning processes. As set out in sections 8.3.1 and 8.3.2 of the Distribution System Code, distributors are required to share information regarding their current and planned CDM activities upon request from the lead transmitter and the IESO.<sup>15</sup> Distributors are encouraged to also provide that information to other distributors in the region for the purpose of improving the accuracy of load forecasting at the regional level.

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<sup>15</sup> A host distributor is also required to include the related information from its embedded distributor(s).

## 5 Role of Distributors in the Local Initiatives Program

### 5.1 Background on Local Initiatives Program

The IESO's 2021-2024 CDM Plan includes a budget of \$65.6 million over the four-year period for the Local Initiatives Program (LIP), which will deliver CDM savings in targeted areas of the province, as identified through the regional planning process. This funding for the LIP is recovered from all Ontario electricity customers through the Global Adjustment charge.

The objectives of the LIP are to:

- Deliver 57 megawatts of demand savings and 230 gigawatt-hours of energy savings over four years.
- Demonstrate the ability to use CDM as a resource to achieve specified demand and/or energy reductions that can help address regional and/or local electricity system constraints.
- Identify how targeted CDM can be used as a resource in the service territories of local utilities to address distribution system needs.
- Be cost effective and not duplicative of current province-wide CDM programs.

The LIP is expected to utilize competitive procurements to acquire CDM resources, which could use a similar approach to the [York Region Non Wires Alternative Demonstration Project](#).

The IESO announced that the first phase of this program will target four areas:

- Richview South area in Toronto
- York Region
- Ottawa
- Belle River area in Windsor-Essex

The IESO indicated that it sees value for distributors in the target areas playing a partnership role in the LIP to support the development and deployment of LIP initiatives. Distributors' customers may be targeted and there is a potential for the LIP to meet local distribution system needs in addition to the regional needs. However, any costs incurred

by distributors through this partnership role would not be eligible for funding from the IESO's 2021-2024 CDM Framework budget.

## 5.2 Role of Electricity Distributors and use of LIP Deferral Account

Guidance to electricity distributors related to distributor partnership in the LIP and cost recovery is provided in the OEB's [letter](#) of May 28, 2021.

The OEB established a LIP Deferral Account to enable distributors to track LIP partnership costs and seek recovery of these costs through distribution rates. The LIP Deferral Account should only be used by distributors that partner with the IESO for the LIP.

The purpose of the LIP Deferral Account is to record costs incurred by a distributor associated with the distributor's participation as a supporting partner to the IESO in the LIP. Eligible distributor costs to be recorded in this account may potentially include activities such as procurement support, providing access to data, supporting evaluation, measurement, & verification activities, and supporting marketing and outreach activities, but shall **not** include the cost of resources procured through the LIP. Upon disposition of the account, the distributor must demonstrate that any costs have been prudently incurred and are related to a LIP partnership with the IESO.

The distributor and the IESO are expected to reach agreement on the responsibilities and projected costs to be borne by each party, to avoid duplication and to ensure proposed distributor activities support the objectives of the LIP. Distributors are expected to demonstrate how their LIP activities deliver value to their customers, at the time a distributor applies for disposition of any balance in the deferral account.

The resources that the IESO is procuring through the LIP are for the purpose of addressing needs identified through the regional planning process (discussed in chapter 4) and are not intended to specifically meet local distribution system needs. However, there may be alignment between the regional needs and local distribution system needs.

Distributors partnering with the IESO in the LIP can potentially leverage the LIP procurements to procure incremental resources to meet local distribution system needs, including integrating these resources into the distribution system. Distributors can apply for distribution rate funding for these activities, for the purpose of avoiding or deferring



infrastructure. Any such application should be separate from the costs tracked in the LIP Deferral Account and can be filed with the OEB at any time, using the guidance on CDM applications provided in chapter 3.

The OEB will review whether the same approach will be used for distributors partnering with the IESO in subsequent phases of the LIP, based on the learnings from the first phase.



## 6 DISTRIBUTOR COSTS FOR ANCILLARY ACTIVITIES RELATED TO CDM

Distributor costs, including staffing costs, that are specific to a distribution rate-funded CDM activity (discussed in chapter 3) or to a distributor's partnership in the LIP (discussed in chapter 5) will be reviewed as part of the funding request for the CDM activity in a rates application, or as part of the application to dispose of eligible costs recorded in a distributor's LIP Deferral Account, respectively.

Distributors may also incur certain costs related to an ancillary role in other activities related to CDM:

- Planning work to assess potential opportunities for distribution rate-funded CDM activities to meet system needs, in advance of proposing specific CDM activities
- Support to a distributor's customers for conservation and energy efficiency programs delivered by IESO or other organizations
- Green Button implementation, use, and enhancement

Guidance related to cost recovery for these activities is provided below.

**System planning:** As part of the distribution system planning function, distributors will likely need to carry out some planning work to assess potential opportunities for distribution rate-funded CDM activities to meet system needs, in advance of proposing any specific CDM activities. Prudently incurred incremental, material costs of this nature (including staffing costs) are eligible for recovery, through the OEB's overall review of operating, maintenance and administrative expenses (OM&A) in rate applications.

**Customer support for conservation and energy efficiency programs delivered by IESO or other organizations:** Distributors may carry out minor efforts to make their customers aware of applicable conservation and energy efficiency programs delivered by other organizations, for the purpose of assisting customers (including low-income and Indigenous customers) in managing their energy bills. This could include providing information on programs delivered by the IESO under the 2021-2024 CDM Framework, and providing any supporting information (e.g., billing data) necessary for customers to participate in these programs. Any such efforts should be limited in nature and non-duplicative of the IESO's activities.

The OEB expects that this would typically be accomplished by distributor staff in the key accounts or customer service functions. With the possible exception of LIP partnership activity (which would be addressed through the LIP Deferral Account), distributors should not request funding through distribution rates for dedicated CDM staff to support IESO programs funded under the 2021-2024 CDM Framework. The 2021-2024 CDM Framework Directive is clear that the IESO is responsible for these programs, and also gives the IESO the responsibility of providing residential and other consumers with tools, guidelines and information to build awareness of CDM measures and provide education on energy efficient practices and behaviours.

**Green Button:** The [Green Button regulation](#)<sup>16</sup> established mandatory requirements for electricity distributors (with certain exceptions) related to implementing the Green Button energy data standard and making energy data available in accordance with the Green Button standard. Supporting increased conservation and energy efficiency through greater consumer access to energy data is an expected outcome of Green Button implementation.

Distributors may potentially identify opportunities to enhance or leverage Green Button (beyond the mandatory implementation requirements) as part of a proposed CDM activity to address a system need. Any incremental costs associated with this discretionary use of Green Button can be reviewed as part of the funding request for the CDM activity. Distributors would be expected to demonstrate how the Green Button enhancements would contribute to the results achieved by the CDM activity.

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<sup>16</sup> O. Reg. 633/21

## 7 TREATMENT OF CDM IN LOAD FORECAST

### 7.1 Approach to Incorporating CDM in Load Forecast

CDM activities affect the electricity consumption and demand of a distributor's customers, and should be considered in a distributor's load and revenue forecasts.

The OEB provides flexibility to distributors in determining their general approach and methodology for load forecasting, which is a key input in establishing operating revenues and distribution rates.<sup>17</sup>

Within their forecasting approach, distributors are expected to determine how to incorporate the historical and forecast impacts of CDM activities into their load forecast, for the purpose of making the load forecast as accurate as possible.

One approach distributors may choose to adopt is to include a CDM variable in a multivariate regression, based on the historical and forecast level of savings from applicable CDM activities in a given year. Distributors may also choose to address CDM through manual adjustments outside of the methodology chosen, either multivariate regression or normalized average use per customer.

If a CDM variable is used, distributors should describe how the interaction with other variables used in the load forecast is addressed, to avoid double-counting the impact of CDM. This means that there may not be a one-to-one relationship between the amount of savings from CDM in a given year and the resulting impact to the load forecast.

Prior to the 2021 CDM Guidelines, OEB guidance in the Filing Requirements distinguished between incorporating the actual impacts of historical CDM activity persisting from prior years within the base load forecast, and a manual CDM adjustment to forecast the impact of new CDM activities in the bridge and test years. This distinction was necessary because any new CDM activities included in the manual CDM adjustment also impacted the threshold used to calculate claims for the Lost Revenue Adjustment Variance Account (LRAMVA).

As described in chapter 8, the LRAMVA will not be used as a default approach for CDM activities once the CFF wind-down is complete. Distributors not requesting to use the

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<sup>17</sup> General guidance on load forecasting is provided in Chapter 2 of the OEB's Filing Requirements.

LRAMVA for new CDM activities do not need to establish an LRAMVA threshold, and may therefore choose to use the same approach for both historical and new CDM activities within their load forecast. If a distributor does request to use the LRAMVA for new CDM activities, it should describe how the impact of CDM included in the load forecast has informed the proposed LRAMVA threshold.<sup>18</sup>

## 7.2 Supporting Evidence for CDM Savings in Forecast

Distributors using a CDM variable (or related approach, including a manual adjustment) in their load forecast should provide details on what types of CDM activities are included in the CDM variable, with supporting evidence and methodology for the claimed historical and forecast reductions in electricity consumption and demand.

Distributors should describe the methodology and rationale for estimating year-over-year persistence of CDM savings, for allocating CDM savings to customer classes, and for any adjustments (e.g., half-year adjustment) to account for timing considerations regarding the CDM activities.

Distributors may include the impact of any of the following types of CDM activities (and potentially others) as part of the CDM variable, taking into account the magnitude of the CDM savings, the level of information available on savings, and any other relevant factors:

- Historical and forecast impacts of any distribution rate-funded CDM activities
- Persisting CDM impacts from the CFF and previous CDM Frameworks
- Historical and forecast impacts of CDM programs funded by the IESO through the Interim Framework and 2021-2024 CDM Framework

For persisting CDM impacts from the CFF and previous CDM Frameworks, distributors should make sure that results included in the load forecast are consistent with any results provided by the IESO at the distribution level. Where the IESO has not provided

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<sup>18</sup> The OEB previously developed a Load Forecast CDM Adjustment Workform (provided as an appendix to the Filing Requirements) as one approach that could be used for the calculation of the LRAMVA Threshold.



results at the distribution level, distributors should provide supporting evidence for estimated savings.

For Interim Framework and 2021-2024 CDM Framework activities, the IESO is not producing savings forecasts or tracking actual program results at the level of individual distributor service territories. If a distributor proposes to explicitly include the impact of these CDM activities in its load forecast, the assumptions and supporting evidence for the historical and forecast savings at the distributor level should be provided.

At this time, the OEB is not specifying a mandatory methodology for calculating the impact of Interim Framework and 2021-2024 CDM Framework activities. A distributor may take account of factors such as:

- IESO forecasts or results at the provincial or zonal level
- the distributor's share of provincial peak demand and annual electricity consumption
- the distributor's share of provincial CDM savings achieved under the CFF
- the degree of fit between the offered IESO programs and the distributor's mix of customers
- additional information available to the distributor regarding program participation by the distributor's customers
- any other factors it believes to be relevant.



## 8 LOST REVENUE ADJUSTMENT MECHANISM

The 2015 CDM Guidelines included a Lost Revenue Adjustment Mechanism (LRAM) for distributors, requiring the mandatory use of a Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) to track any impact of CDM not built into distribution rates. The LRAMVA tracks the difference between forecast revenue loss attributable to CDM activity embedded in rates, and actual revenue loss due to the measured impacts of CDM programs. Distributors dispose of balances (debits or credits) in the LRAMVA through claims filed as part of rate applications.<sup>19</sup> The purpose of the LRAMVA in the 2015 CDM Guidelines was to ensure that the potential for distribution revenues to be reduced due to CDM activities did not act as a disincentive to distributors to pursue or promote CDM.

In the 2021 CDM Guidelines, the use of an LRAMVA is no longer the default approach for CDM activities. As indicated in chapter 7, distributors are expected to determine how to incorporate the historical and forecast impacts of CDM activities into their load forecast, for the purpose of making the load forecast as accurate as possible, thereby reducing the likelihood of significant revenue impacts due to deviations from forecast. The equivalent of an LRAMVA does not exist for many other external factors used in load forecasting that affect electricity consumption and expose distributors to revenue risk.

For CDM activities funded by the IESO through the 2021-2024 CDM Framework (with the possible exception of the LIP, depending on the nature of the distributor's participation), there is no direct role for distributors, and therefore no disincentive that needs to be removed. Distributors are not to use the LRAMVA for these CDM activities (again, with the possible exception of the LIP).

The use of the LRAMVA will be required for some distributors for several years as a transitional measure for the wind-down of CFF and some Interim Framework activities.

In addition, the use of the LRAMVA may be requested by distributors for distribution-rate funded CDM activities and LIP activities only, with need to be determined on a

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<sup>19</sup> Historically, the OEB has required LRAMVA balances to be brought forth for disposition as part of cost-based applications at a minimum, however, distributors could also request disposition during the Incentive Regulation term, if the balance was deemed by the distributor to be significant.

case-by-case basis. If such a request is granted, the distributor may choose to make use of the existing generic LRAMVA (Account 1568).

Additional details are provided below.

**Wind-down of LRAMVA Claims for CDM activities funded by the IESO through the CFF or Interim Framework:**

If an LRAMVA threshold for a distributor was established in a prior rebasing application, the use of the LRAMVA to track the impact of CDM not built into distribution rates was mandatory. Distributors will need to seek disposition of all outstanding LRAMVA balances related to previously established thresholds, if they have not already done so.<sup>20</sup>

Distributors filing an application for 2023 rates should seek disposition of all outstanding LRAMVA balances related to previously established thresholds. Distributors not rebasing for 2023 rates who have complete information on eligible savings (i.e., needing only to account for persistence of savings in future years) may seek a rate adjustment on a prospective basis to address amounts that would otherwise be recorded in the LRAMVA for all years until their next rebasing application.

In preparing claims related to disposition of outstanding LRAMVA balances, distributors may seek to claim savings from CFF programs, and from programs they delivered through the Local Program Fund that was part of the Interim Framework. Eligibility for LRAM extends to CFF programs completed after Dec 31, 2020, if undertaken consistent with any CFF timelines extension directives issued to the IESO. Distributors should provide sufficient supporting documentation on project savings to support their claim. Distributors are eligible for LRAM for persisting impacts of CFF programs and Local Program Fund programs until their next rebasing. Distributors are not eligible for LRAM for other IESO programs funded through the Interim Framework.

Distributors filing claims related to disposition of outstanding LRAMVA balances should follow the detailed guidance in Chapters 2 and 3 of the Filing Requirements.

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<sup>20</sup> If the balance in the LRAMVA is determined by the OEB to be an amount recoverable by the distributor, the distributor can choose not to recover this amount.

**CDM activities funded by the IESO as part of the LIP, and CDM activities funded through distribution rates:**

As indicated in chapter 7, distributors are expected to determine how to incorporate the historical and forecast impacts of these CDM activities into their load forecast, if the activities are known at the time of rebasing. As these CDM activities are being undertaken to address a specific system need, distributors will likely have a good understanding of the expected program savings, as these savings are being relied upon by distributors and the IESO to defer infrastructure. Therefore, it is expected that distributors will be able to estimate the impact of these activities relatively accurately in their load forecast, similar to how they are expected to forecast the impact of other system upgrades they undertake. For this reason, LRAM will not be the default approach for these activities.

However, distributors may request the use of an LRAMVA for distribution-rate funded CDM activities or LIP activities on a case-by-case basis.

For distribution-rate funded CDM activities (including the circumstance where a distributor seeks distribution rate funding to procure incremental resources to meet local distribution system needs through the LIP), the request for use of an LRAMVA would be considered as part of the application for funding.

If a distributor enters into a partnership with the IESO for a LIP activity in its service territory and seeks to maintain access to the use of the LRAMVA for this activity, but is not requesting additional rate funding to procure incremental resources, the distributor should include the request to maintain access to the LRAMVA within its next rate application, whether it is a cost-based application, an IRM application or a Custom IR update (if applicable).

In all cases where a distributor is requesting access to, and the use of, the LRAMVA for a distribution rate-funded CDM activity or a LIP activity, distributors should demonstrate the need for the LRAMVA (or similar mechanism), the proposed LRAMVA threshold, how they intend to support the tracking of lost revenues, and the nature of the documentation that they propose to provide at the time of LRAMVA disposition. The OEB expects that the mechanics of the LRAMVA would be based on the LRAMVA used by distributors in previous versions of the CDM Guidelines (including a symmetrical approach to the treatment of lost revenues).



## 9 CO-ORDINATION WITH NATURAL GAS DEMAND-SIDE MANAGEMENT PROGRAMS

Under the 2021-2024 CDM Framework Directive, the IESO is directed to co-ordinate the delivery of CDM programs with entities delivering natural gas demand-side management (DSM) programs, to the degree reasonably practicable. The OEB's IRP Framework also enables, but does not require, Enbridge Gas to work with the IESO or electricity distributors to facilitate electricity-based energy solutions to address a constraint in Enbridge Gas's system, as an alternative to projects undertaken by Enbridge Gas.

The November 15, 2021 Mandate Letter from the Minister of Energy to the Chair of the OEB encouraged further collaboration between electricity and natural gas conservation programs to facilitate a streamlined customer experience. While there has been collaboration between CDM and DSM programs in the low-income space, there are still opportunities for co-ordination between electricity distributors and DSM providers, including natural gas distributors. Electricity distributors are encouraged to co-ordinate with entities delivering natural gas DSM programs, to the degree reasonably practicable, for any CDM activities they have any role in delivering, with the goal of reducing costs and improving efficiencies.

