Conservation and Demand Management Frequently Asked Questions

1. **What does Conservation and Demand Management (CDM) mean?**

   Conservation in the context of this proceeding includes initiatives undertaken by local distribution companies (LDCs) to reduce electricity system waste and usage. Demand Management in this context includes initiatives designed to limit peak system loading by shifting load timing.

2. **What is the goal of the CDM initiative?**

   The Ontario Government is committed to building a culture of conservation with the goal for Ontario to become a North American leader in conservation. The government has set a target of reducing province-wide electricity demand by five percent by 2007. LDCs are well positioned to influence the outcome of this initiative and as such, the Minister of Energy has asked LDCs to invest in CDM programs.

3. **What is the commitment of the LDC?**

   As indicated in the Minister of Energy's letter to all distributions companies dated May 31, 2004, LDCs can make application to the Ontario Energy Board ("the Board") for third installment of their incremental market adjusted revenue requirement. Approval of the third installment is conditional on LDCs reinvesting the equivalent of one year's incremental returns in CDM.

4. **What is the third instalment of the incremental market adjusted revenue requirement?**

   Prior to the opening of Ontario's electricity market to competition, LDCs were required to undertake a number of changes. One of the changes required that LDCs become business corporations, and as such, they were entitled to earn a selected market-based rate of return (MBRR) between 0 and 9.88%. A calculation was performed to determine the incremental revenue required by the LDC to generate its MBRR. This incremental revenue requirement is called the market adjusted revenue requirement (MARR). The incremental MARR was to be recovered by LDC through rate increases in three instalments called "tranches". The first tranche and second tranche were recovered in 2001 and 2002 rates, respectively. In 2002 a rate freeze was put in place by the government and the third instalment of incremental MARR was not recovered in 2003 as planned.

   Currently, the Minister is allowing LDCs to recover the third instalment of the incremental market adjusted revenue requirement (the 3^{rd} tranche) conditional on a commitment to reinvest an equivalent amount in CDM initiatives.

5. **What is the process for opening a deferral account?**

   As indicated in the Procedural Order issued by the Board on October 5, 2004, all LDCs have the authority to automatically establish a deferral account without seeking approval of the Board to be used in tracking expenditure related to CDM. The Board has amended the Accounting Procedures Handbook and the Uniform System of Accounts to allow for the automatic approval of the deferral account. The Board's letter of October 29, 2004 details the accounting treatment of the deferral account.

6. **How is the $25,000 development expense to be used?**

   Further to the Procedural Order of October 5, 2004, the Board indicated that it was prepared to allow development expenses up to $25,000 as part of the 3rd tranche for research of technologies or programs that could be employed for CDM. The Board also indicated that the funds would be counted against the 3rd tranche irrespective of whether any programs were undertaken. The intent of pre-approval of the development expense is to initiate CDM Plan development without the risk of not recovering the allocated resources.

7. **Is the development expense the upper limit to spending on research of technologies and programs for CDM?**

   No, the development expense relates to the costs associated with development of a CDM Plan and does not restrict initiatives within the plan.

8. **What is the evidence the applicant must submit for approval of the CDM Plan?**

   As indicated in the Procedural Order of October 5, 2004, the criteria for approval of a CDM Plan are:

   1. a description of the proposed programs identifying the affected customer classes and the specific details of each program;
   2. the total program budget including the total amount and schedule of the annual expenses for the 2004-2007 time period; and
   3. the anticipated program benefits, including quantifiable benefits where these can be identified (i.e.: energy savings (kW or kWh)). Where the program has anticipated qualitative benefits (such as enabling technologies or customer education), these expected qualitative benefits must be described.

9. **What types of programs are eligible for CDM Plan approval by the OEB?**

   Further to the Minister of Energy's letter to LDCs on May 31, 2004 initiatives which fall endure the following categories are eligible:

- energy efficiency;
- behavioural and operational changes, including application of benchmarking or “smart” control systems;
- Load management measures which facilitate interruptible and dispatchable loads, dual fuel applications, thermal storage, and demand response;
- Measures to encourage fuel switching which reduces the total system energy for a given end-use;
- Programs and initiatives targeted to low income and other hard to reach consumers; and
- Distributed energy options behind a customer’s meter such as tri-generation, co-generation, ground source heat pumps, solar wind, and biomass systems.

10. If a utility elected an ROE less than 9.88%, but would like approval of program funding in excess of their 3rd tranche, what other approvals are needed?

An LDC that desires a CDM Plan budget that is in excess of the previously determined 3rd tranche must file an application to the Board for approval of a CDM. The application to the Board must include authorization of the Minister for approval of spending equivalent to the 3rd tranche at the full 9.88% ROE. The application must also include an explanation of the calculated amount of the 3rd tranche had the LDC elected the maximum allowable ROE (9.88%).

To determine the calculated amount of the 3rd tranche, the LDCs should consult the procedure set out in Sheet 7 of the Rate Unbundling Design (RUD) Model in 2001, which defines the concept of incremental MARR. The maximum CDM budget would be:

CDM Budget = 1/3 x (MARR),

where:

MARR = RATE BASE x [(CER x ROE)] + [(1-CER) x DEBT RATE)],

Rate Base is fully explained on Pages 3-5 to 3-8 of the Rate Handbook

CER is the Common Equity Ratio (inputted decimal places),

ROE is the Return on Equity (usually 9.88% and inputted as 0.0988), and,

Debt Rate is the debt/equity split. For utilities with rate bases less than $100 million the debt equity split was deemed to be 50/50 (inputted as 0.5).

11. **Does the OEB support LDCs making group applications for approval of the CDM Plan?**

    Yes, it is clear that a group application can eliminate much of the duplication and effort in CDM Plan development and research. A group application must clearly indicate the programs, budgets and spending schedules by individual LDC as an appendix.

12. **Does a distributor have to conduct a total resource cost (TRC) test to submit a CDM initiative to the OEB, for the purposes of the 3rd tranche?**

    No. The Procedural Order of October 5, 2004 contains the complete instructions for obtaining prior approval of the CDM Plan. A TRC test may assist utilities in developing cost effective programs. The TRC test is useful where all of the costs and energy savings impacts are available.

13. **What is the schedule for investment and cost recovery associated with CDM?**

    LDCs can seek to recover costs associated with CDM investments dating back to July 1, 2004. Investments in CDM under this program are expected to be completed by September 30, 2007. LDCs that have or expect to incur costs associated with CDM initiatives outside of this schedule are invited to make applications to the Board for approval on a case-by-case basis.

14. **Will investments made in distribution assets be included in calculating rate base in future years?**

    Yes, distribution assets acquired under the CDM program may form part of the rate base calculation in future years. The first opportunity LDCs will have to apply these assets to rate base will be for the purposes of setting of 2006 rates.

15. **How will LDCs determine resource savings?**

    As per the Procedural Order of October 5, 2004, a calculation of benefits should be accurate to the extent possible, whether qualitative or quantitative in nature.

16. **What happens after the CDM Funds are exhausted?**

    Once the equivalent of the 3rd tranche is fully invested in CDM initiatives the LDC would no longer have the ability to make further investments under this program. As a completely separate process, the 2006 Electricity Distribution Rate Process is establishing a long-term approach to CDM programs.

17. **Must the LDC continue to make investments in CDM beyond 2005 to keep the 3rd tranche in rates?**

No, in order for the LDC to get the 3rd tranche in rates, the LDC must make a commitment to invest an amount equivalent to one year's incremental revenue in CDM initiatives over a three-year period until Sep 2007. The current Board review relates to the CDM plans required to fulfill the commitment related to the 3rd tranche, however it is expected that utilities will be further developing their CDM activities and that the rate treatment of these activities will be considered in future rates applications.

18. Are smart meters eligible?

Smart meters and the associated information systems are technologies that enable conservation and demand management. A component of a LDCs CDM plan may include smart meters. LDCs should take note of the Smart Meter Initiative (RP-2004-0196). More information on the Smart Meter Initiative can be found at http://www.oeb.gov.on.ca/html/en/industryrelations/ongoingprojects_smartmeters.htm

19. Can a distributor hire staff with funds made available through the CDM Plan to administer CDM initiatives?

Yes, LDCs can use these funds to cover overhead costs associated with developing and implementing CDM initiatives.

20. Who authorises CDM Plans and spending?

The OEB reviews CDM Plans and the associated budgets. The LDC will be responsible to ensure that spending is done in accordance with the plan.

21. What spreadsheets and input data will be provided by the Board to enable LDC's to supply the Board with the information they require.

The Board will not be providing spreadsheets or input data in support of CDM applications.

22. Will the Board provide a standard template document for CDM plan submissions?

The Board will not provide a standard template for CDM plan submissions, as a template would likely constrain potential plans. Many LDCs are discussing innovative approaches to group submissions.

23. What happens if the actual program benefits of the 3rd tranche initiatives are less than what was originally projected? Will some portion of the program costs be disallowed on this basis?

Given the pilot nature of initiatives begun with 3rd tranche funding, the Board recognizes that specific targets may not be met.

24. To what extent can the CDM funds be applied to distribution system enhancements?

Distribution system enhancements are among a variety of initiatives that can be looked at to achieve conservation benefits. LDCs are encouraged to strike a balance between customer and utility focused CDM initiatives.

25. Given that LDCs will generate increased revenue associated with the 3rd tranche, how will the increase in PILs be dealt with?

The rate increase for 2005 will include a PILs provision.

26. Is the 3rd tranche encumbered or is the LDC making a commitment to spend an amount equivalent to the 3rd tranche?

Under this program, in order for the LDC to receive the 3rd tranche in rates, the LDC must commit to spend an equivalent amount on CDM initiatives over a 3 year period ending on September 30, 2007. Therefore the 3rd tranche is not encumbered and can be recognized as income, when received. Accounting under GAAP is different than the reporting and record keeping requirements (RRR) filings requested by the Board.

27. How would a utility budget for operating/maintenance and administration costs associated with CDM?

In designing the CDM budget, costs allocated to the CDM Plan must be identified as being incremental to the existing OM&A budget.

28. From a reporting perspective, how would the utility track OM&A costs associated with CDM?

For RRR purposes, a utility should track costs in a manner similar to the recording of regulatory assets. Account 1565 has been established for this purpose and instructions on how to used this account are covered in the Board’s letter to all LDCs on October 29, 2004.

29. Can the LDC use CDM funds to provide low or zero interest loans to third parties wishing to undertake CDM initiatives?

It is up to the LDC to decide how to use CDM funds for CDM initiatives. If the LDC provides a loan to a third party, the amount of the loan would not be considered part of CDM spending as the funds would be repaid to the LDC at a later date. An LDC might want to consider other options including paying the interest on behalf of a third party.

12.1.2004