RP-2004-0203

DRAFT GUIDELINES FOR
ELECTRICITY DISTRIBUTORS WISHING TO APPLY FOR SSM INCENTIVE FOR 2005 IMPLEMENTATION OF CDM PLANS

Prepared by Board Staff

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PURPOSE OF THE DRAFT GUIDELINES

On December 7, 2004, in its decision on the Motion by Pollution Probe, the Board gave the opportunity to electricity distributors to voluntarily apply for revenue protection or lost revenue adjustment mechanism (LRAM) and for an incentive mechanism or shared savings mechanism (SSM) to facilitate more effective implementation of the conservation and demand management (CDM) plans. The Board ruled that both LRAM and SSM will be available for expenditures for the 2005 rate year which begins April 1, 2005 and ends March 31, 2006 to be recovered by distributors.

Upon the Board’s direction Board staff drafted the“Draft Guidelines for Electric Distributors Wishing to Apply for SSM Incentive for 2005 Implementation of CDM Plans” (Draft Guidelines). The purpose of the Draft Guidelines is to assist prospective applicants in preparing the applications for SSM approval. The Draft Guidelines provide only a general framework and should be used in conjunction with directions of the 2006 EDR proceeding (RP-2004-0188) and/or any other applicable directive or rules issued by the Board or other agencies. The Draft Guidelines do not address the LRAM applications as these will be guided by the rules to be established in the 2006 EDR proceeding.

GENERAL FILING REQUIREMENTS

- These Draft Guidelines set a general filing requirements for the SSM applications by distributors wishing to obtain incentives for CDM activities furing the 2005 rate year.
- An application for a SSM is voluntary.
- A distributor wishing to apply for a SSM shall file an application at the time of filing its 2007 rate application in the summer of 2006.
- This SSM applies only to the customers’ side of the meter programs which either reduce the demand for electricity (kW) and/or reduce the amount of energy used (kWh).
- The SSM applies only to expenditures on customer based programs which cannot be included in rate base.

- A distributor may recover 5% of the net incremental benefits created by the approved CDM program or portfolio implemented during the period.

- The applicant shall use the Total Resource Cost (TRC) Test to determine the net incremental benefits.

- The TRC Test calculates the economic benefits of a CDM program or portfolio of programs. The TRC method requires the quantification of costs and benefits of a CDM program or portfolio.

- Benefits of a CDM program or portfolio, in the TRC Test, include the avoided costs of electricity (i.e. electricity generation, transmission, distribution cost) and other fuels.

- Costs of a CDM program or portfolio, in the TRC Test, include distributor cost to administer the program, participants costs and other delivery or implementation. Therefore, the costs must account for all CDM program implementation costs regardless of who pays.

- The benefits calculation is net of “free riders” which are defined as customers that would have adopted a particular CDM program measure regardless of the CDM Plan implementation.

- In the TRC test, incentives and taxes are considered as transfers between the customer and other agencies. As such, they are both a cost and a benefit and should net out of the calculation.

- The result of the TRC Test should be expressed as a Net Present Value (NPV) defined as a discounted value of net benefits over the period.

- Inputs and assumptions of the TRC Test have to be clearly stated in the pre-filed evidence.