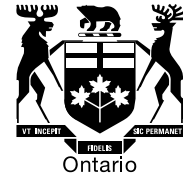


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BY E-MAIL

March 3, 2016

**TO: All Licensed Electricity Distributors
IESO
All Other Interested Parties**

RE: Application of Demand Savings in Final Verified Conservation Results in LDC Lost Revenue Adjustment Mechanism (LRAM) Claims

The OEB is holding a meeting on March 31, 2016 to gather input on the approach to recording the revenue impact of demand (kW) savings in the lost revenue adjustment mechanism variance account (LRAMVA). The OEB expects to provide further policy guidance on the LRAMVA following this meeting.

Background

For CDM programs delivered between 2011 and 2014, the OEB established Account 1568 (LRAM Variance Account) to capture the variance between the OEB-approved CDM forecast and the actual results at the customer rate class level. At a minimum, distributors must apply for the disposition of the balance in the LRAMVA as part of their cost of service applications, but may apply for disposition during the incentive rate-setting (IR) period of a distributor's rate-setting plan if the balance is deemed to be significant.

In support of their LRAMVA claims, distributors must provide, among other requirements, the energy and peak demand savings applicable to each rate class for each CDM program undertaken in a given year. These savings should be supported by the most recent final evaluation report for the distributor as provided by the IESO.

At issue in several recent applications has been the appropriateness of applying an adjustment factor to verified demand savings as a means of estimating the distribution revenue impact within demand-billed customer classes in a given year.

In a memorandum to OEB staff dated February 24, 2016, the IESO clarified its definition of verified demand savings and specifically reported that the IESO's methodology "makes no attempt to verify the impact that a demand response event may have on a customer's demand for the purposes of billing for distribution service, even in months where the demand response program was activated."

This clarification suggests that there should be further review of the appropriate approach to calculating any claim for lost revenues as a result of deployment of demand response initiatives, even where program results have been verified by the IESO. The IESO's memorandum also indicates that demand savings from energy efficiency programs are based on the average monthly demand savings for June, July and August. While there may be demand reductions in other months, or persistence into other years, the approach to determining this should also be considered.

These issues have surfaced in both cost of service and incentive rate-setting mechanism (IRM) applications. The generic nature of this issue warrants a discussion outside of the application process – not least for IRM applications, which are designed to implement mechanistic adjustments to a distributor's rates between cost of service proceedings.

The meeting to discuss these issues will be held on March 31, 2016 in the ADR Room at the OEB's office at 2300 Yonge St. Any party who has been granted intervenor status and cost eligibility for a 2016 electricity rate application will be eligible for cost awards for attendance at the meeting, in accordance with the *OEB's Practice Directions on Cost Awards*.

If you have any questions regarding the meeting, please contact Takis Plagiannakos at takis.plagiannakos@ontarioenergyboard.ca or 416-440-7680.

Sincerely,

Original Signed By

Kirsten Walli
Board Secretary