

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

April 28, 2005

BACKGROUND AND PURPOSE OF THE GUIDELINES:

On December 7, 2004, in its decision on the Motion by Pollution Probe the Board gave the opportunity to electricity distributors to 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.

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). This document was issued for comment on December 23, 2004. The Board has reviewed these comments. This document constitutes the Guidelines of the Board. The purpose of the Guidelines are to assist prospective applicants in preparing their applications for SSM approval and to set out the approach the Board will generally take in considering these applications. An applicant that wishes the Board to vary from the Guidelines, must set out the special circumstances of its case that justify such a variation.

The 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 directives or rules issued by the Board or other agencies. The Guidelines do not address the LRAM applications as these will be guided by the guidelines to be established in the 2006 EDR proceeding.

THE GUIDELINE:

- An application for a SSM is voluntary.
- A distributor wishing to apply for a SSM for the 2005 rate year shall file an application at the time of filing its 2007 rate application.
- This SSM applies only to customer focussed initiatives that reduce the demand for electricity (kW) and/or reduce the amount of energy used (kWh) and where the costs of the initiatives are expensed.

- A distributor may recover 5% of the net benefits created by the approved CDM program or portfolio.
- The Applicant shall use the Total Resource Cost (TRC) Test to determine the net 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) and other fuels.
- Costs of a CDM program or portfolio, in the TRC Test, include distributor costs to administer the program, participants costs and other delivery or implementation costs. 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, taxes are considered as transfers between the customer and other agencies. As such, they are a cost and a benefit and must net out of the calculation.
- The result of the TRC Test shall be expressed as a Net Present Value (NPV) defined as a discounted value of net benefits over the lifetime(s) of the measures(s) delivered by each program.
- Inputs and assumptions of the TRC Test have to be clearly stated in the pre-filed evidence. Applicants may use the standard inputs for TRC calculation which are contained in the Board’s Conservation Manual (available late June 2005). Where an applicant wishes to use other inputs, the applicant must provide supporting evidence, an explanation of its choice and, for comparison, the TRC test results using the inputs contained in the Conservation Manual.

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