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BY E-MAIL

March 3, 2016

Ms. Sandra Leonetti
Thunder Bay Hydro Electricity Distribution Inc.
34 Cumberland St. N.
Thunder Bay, ON P7A 4L4

Dear Ms. Leonetti:

**Re: Thunder Bay Hydro Electricity Distribution Inc.
Application for Rates
OEB File Number EB-2015-0103**

OEB staff has noted that Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) balance calculations in several recent Cost of Service (COS) and Incentive Rate-setting Mechanism (IRM) applications have included an adjustment factor to verified demand savings in calculating lost revenues for the purpose of disposing of LRAMVA balances. These adjustment factors have varied by distributor and have been applied to both demand reductions resulting from energy efficiency programs and demand response program savings as reported by the Independent Electricity System Operator (IESO).

OEB staff approached the IESO to clarify this issue. In a memorandum to OEB staff dated February 24, 2016 (attached), the IESO explained 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." The memorandum also reported that while demand savings due to energy efficiency investments may persist beyond the peak season, effects are expected to vary based on the type of program.

In a [letter dated March 3, 2016](#), the OEB communicated that it will hold a stakeholder meeting on March 31, 2016 to gather input on the approach to recording demand savings in the LRAMVA. The OEB expects to provide further policy guidance on the LRAMVA following this meeting.

Given the relevance of this information to this IRM application, which includes an LRAMVA claim, OEB staff has added this letter to case files associated with this administrative process.

Yours truly,

Original signed by

Georgette Vlahos
Analyst, Electricity Rates & Accounting

Memorandum

To: Josh Wasylyk, Ontario Energy Board

Cc: Nik Schruder, IESO
Katherine Sparkes, IESO

From: Phil Bosco, IESO

Date: February 24, 2016

Re: **Application of Demand Savings in Final Verified Conservation Results in LDC LRAM Claims**

This memorandum is in response to inquiries by both the Ontario Energy Board (OEB) and Local Distribution Companies (LDC's) about the application of final verified demands savings from the 2011-2014 Conservation and Demand Management (CDM) Framework in an LDC's Lost Revenue Adjustment Mechanism (LRAM) claim. The intent of the memo is to clarify the definition of demand savings used by the IESO in its reports to LDCs regarding final verified results to enable the OEB to make consistent decisions on LDC LRAM claims.

Verified demand savings, as defined in the EM&V Protocol and Requirements¹, are based on the average demand reduction across the total number of hours in the summer peak period (June, July, August, from 1pm to 7pm).

For an energy efficiency project, the verified demand savings shown in an LDC's 2011-2014 CDM Results Report represent an annualized figure -- the average monthly demand savings in each of June, July and August -- credited to the year of the in-service date. While the IESO has not verified the existence of further demand savings from energy efficiency projects in other months of the year, it may nevertheless be appropriate for LDCs to apply reported demand reductions to other months in recognition of the persistence of energy efficiency measures beyond the peak season. The application to other months should be commensurate with the type of program and whether its effects are measurable year-round (such as lighting) or only at certain times (such as space cooling). Similarly, the verified demand savings for an energy efficiency project persist into future years based on the life of the measure installed.

A different approach is required when estimating the effects of demand response programs. The IESO's evaluation methodology focuses on evaluating the system benefits of CDM activities

¹ IESO EM&V Protocol and Requirements,
<http://www.powerauthority.on.ca/sites/default/files/conservation/Conservation-First-EMandV-Protocols-and-Requirements-2015-2020-Apr29-2015.pdf>

and the IESO evaluation 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. Consequently, the IESO's results do not support the estimation of lost revenues on demand-billed distribution customers.

The final verified demand savings reflect only these periods defined in the EM&V protocol and only reflect the value that has been attributed against the LDC's 2011-2014 CDM Target.

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