

Addendum to the Guelph Hydro Electric Systems Inc. Conservation and Demand Management Strategy

Background

This document responds to a request from the Ontario Energy Board (“OEB”) to supplement the filing by Guelph Hydro Electric Systems Inc. (“Guelph Hydro”) of a strategy for meeting energy and demand reduction targets over the period 2011 to 2014. The supplement provides a preliminary budget for Guelph Hydro programs. In addition to the budget itself, the methodology used to calculate the preliminary budget is described, and some of the constraints and limitations are identified.

On March 31, 2010, the Minister of Energy issued a directive to the OEB instructing the OEB to establish electricity Conservation and Demand Management (“CDM”) targets to be met by Local Distribution Companies (“LDC”) within the 2011 to 2014 time frame. The directive requires the OEB to make meeting CDM targets part of each LDC’s license requirement, and specified some of those requirements.

The energy savings and demand reductions to be realized by the LDC’s were to be achieved primarily through province-wide programs designed by the Ontario Power Authority (“OPA”), and if necessary, supplemented by additional programs offered by LDC’s with OEB approval (Board Approved Programs or BAP’s). BAP’s may be offered by individual LDC’s or groups of LDC’s working together.

On June 22, 2010 the OEB issued a *Notice of Proposal to Issue a New Code: Creation of the Conservation and Demand Management Code for Electricity Distributors* and invited comments from LDC’s and other interested parties. At the same time, the OEB released a methodology for allocating the provincial targets across the LDC’s that had been developed by the OPA.

On September 16, 2010 the OEB issued the final code entitled *Conservation and Demand Management Code for Electricity Distributors*.

In the fall of 2010, Guelph Hydro participated in information sessions hosted by the OEB, the Electricity Distributors Association (“EDA”) and the OPA. Through these sessions the OPA provided several tools for evaluating programs, including some of the programs the OPA plans to offer through LDC’s.

On November 1, 2010, Guelph Hydro submitted its CDM Strategy to the OEB. Considerable work went into developing Guelph Hydro’s strategy for both Tier 1 as well as Tier 2 and Tier 3 programs, including carefully reviewing the requirements set out in the Code, the information provided by the OEB and the OPA in the information sessions, and considering the characteristics of our customers. This included a consideration of the market potential based on the experience with the pre-2011 OPA programs, third tranche CDM initiatives, local conservation initiatives, as well as the barriers that our customers face.

On November 12, 2010, the Board posted updated CDM targets for each LDC. Updates were minor and Guelph Hydro’s CDM targets went from 17.02 MW of summer 2014 peak demand and 87.071 GWh of energy savings to 16.71 MW and 79.53 GWh.

At the time of filing, the funding formulas the OPA would use with LDC’s including Guelph Hydro was not available, and Tier 2 and Tier 3 programs were still in their preliminary design stage. As budgets were not available, and in accordance with the Code which states that budgets are to be provided *where available* (Section 2.1.1 b and

Section 5.1 d), budgets were not included as part of the CDM Strategy submission. Given that the OPA indicated that its Tier 1 programs would cover 91% of the provincial energy target and 78% of the provincial 2014 demand reduction target, most of the budget is expected to be associated with OPA programs.

On November 23, 2010, Guelph Hydro received a letter from the Board Secretary with the following direction from the Board:

“The Board directs Guelph Hydro to file an addendum to its CDM Strategy that contains estimated, prospective budgets for planned OPA-Contracted Province-Wide CDM Programs and Board-Approved CDM Programs. Budgets associated with the OPA’s low-income program do not need to be included. When developing the estimated, prospective budgets, Guelph Hydro may use a methodology of its choice. For example, the approach used by Hydro One Networks Inc. or Toronto Hydro-Electric Systems Limited. Alternatively, Guelph Hydro may choose to use information arising from the finalization of the OPA’s funding formula. Regardless of the methodology used, the addendum must be filed no later than 21 days after the finalization of the OPA’s funding formula.”

At the time of writing, all LDC’s except for four received this same direction. Toronto Hydro, Hydro One, Hydro One Brampton and Enersource had included estimated budgets in their strategies, based on a variety of methodologies.

On December 24, 2010, Guelph Hydro received an email from the Electricity Distributors Association (“EDA”) providing it with its four-year program administration budget (“PAB”). PAB funding for 2011-2014 is shown in Table A-1.

Table A-1. Four-year PAB funding for planned OPA-contracted CDM programs.

OPA Program	PAB Funding Amount
Consumer	<i>\$1,331,381.81</i>
Commercial / Institutional	<i>\$1,425,930.66</i>
Industrial	<i>\$214,938.99</i>
Total Four-year PAB	<i>\$2,972,251.46</i>

The PAB is but one of five funding components that Guelph Hydro expects to receive to support its delivery of 2011-2014 OPA program offerings. The five funding components are expected to be as follows (as reported in OPA webinar from December 9, 2010):

- Program Administration Budget (“PAB”)
- Capability Building Funding (“CBF”)
- Participant Based Funding (“PBF”)
- Customer Incentives (“CF”)
- Cost Efficiency Incentives (“CEI”)

The preliminary budget outlined in this addendum to Guelph Hydro’s CDM Strategy covers four of the funding components: PAB, CBF, PBF and CI. The CEI is an incentive given to LDC’s for efficient use of program funding and so is not considered in the proposed preliminary budget.

Preliminary Budget

To respond to this direction from the OEB, Guelph Hydro has prepared an estimated, prospective budget for planned OPA-Contracted Province-Wide CDM Programs and Board-Approved CDM Programs. The estimated budget required for Guelph Hydro to meet its targets is \$19,595,000, of which \$13,925,000 is for the OPA-Contracted Province-Wide CDM Programs and \$5,670,000 is for Board-Approved Programs. Details are provided in Table A-2.

Table A-2. Breakdown of prospective budget for planned OPA-Contracted and Board-Approved CDM Programs.

Program	Program Total
OPA Consumer Programs	\$4,127,000
OPA Business Program	\$8,057,000
OPA Industrial Program	\$1,741,000
OPA Low-Income Program	N/A
<i>OPA Program Subtotal</i>	<i>\$13,925,000</i>
<i>BAP Subtotal</i>	<i>\$5,670,000</i>
Portfolio Total	\$19,595,000

Methodology

The budget estimates in Table A-2 were developed using the following methodology:

1. Estimate the avoided costs associated with OPA-Contracted Province-Wide CDM Programs, using the Resource Tool provided by the OPA, and the estimated installation rate of measures, based on the advice provided by the OPA. Avoided costs are considered as the main benefit (if not the only benefit) that is considered in the Program Administrator Cost (“PAC”) test and the TRC test.
2. Estimate the size of the program budget that is reasonable to run the OPA programs and thus achieve the avoided energy costs. This estimate considers that the total program costs must be less than the total avoided costs if the program is to have any net TRC or PAC benefit. The size of the budgets submitted by the four LDC’s with confirmed strategies was also considered in setting the budget (after scaling them back proportionally to the size of Guelph Hydro’s CDM targets), as was Guelph Hydro staff’s experience in delivering programs under existing and previous OPA programs and third-tranche CDM initiatives.
3. For each of the three OPA programs (consumer, business and industrial), split the budget estimated in Step 2 into the amount that should be allocated to the OPA and the amount that should be allocated to Guelph Hydro. The split for each program is based on values reported by Hydro One Brampton in its strategy.
4. For the Board-Approved program budget, estimate the budget using the BAP energy and demand savings required to meet the CDM targets and “standard” unit costs for demand and for energy savings. These standard unit costs were based on unit costs estimated from the avoided costs and savings from OPA programs.

Constraints and Limitations

These budget estimates are believed to provide an indication of the scale of the resources required to meet the targets specified for Guelph Hydro. However, as is clear from the discussion above, they are based on financial contracts imposed (primarily the PAC test, though the TRC test must also be passed) and broad scale assessments of reasonable costs, not budgeting for the specific technologies and programs that will be implemented.

The budgets for the OPA-Contracted programs will be specified in the funding agreement to be signed between the OPA and Guelph Hydro. While Guelph Hydro's PAB funding has been released, the funding formula for that agreement has neither been provided to Guelph Hydro in draft form, nor has the final funding formula been negotiated.

As the Board-Approved program designs become more specific as applications are prepared for approval, program specific budgets will be estimated, and will form part of the application for those programs.

Those final numbers may be higher or lower depending on such factors as:

- The specific technologies and measures to be implemented, and their benefits, and therefore the incentive levels that may be needed
- The details of the program designs, and the costs of delivering the programs
- The ability to meet "typical" costs in the Guelph Hydro service area
- The possible need for the programs to exceed energy targets in order to meet demand targets (or vice versa)

Guelph Hydro will report on progress towards achieving the targets that have been set for it, with the filing of its annual reports.