

## **DRAFT GUIDE TO TOTAL RESOURCE COST ANALYSIS: HYDRO ONE'S COMMENTS**

### **Introduction**

In accordance with the Board's July 6<sup>th</sup> memo on this matter, Hydro One wishes to comment on the draft Guide to Total Resource Cost ("TRC") Analysis for Conservation and Demand Management programs. Hydro One supports the use of the TRC in evaluating its CDM programs and is supportive of the Guide as written, as it uses standard calculations, which have been adopted across the industry. We offer the following comments with a view to highlighting a couple of our unique interests and also to indicate a few areas in which clarification might be helpful.

### ***Utility- Specific vs Industry-Wide Assumptions***

We believe that the Board's comment on page 1 that "LDCs are free to use other testing techniques and incorporate other data where appropriate," provides the required flexibility for utilities to include unique circumstances, where necessary. Hydro One notes a couple of areas where this may be useful, below:

- *Treatment of Losses, page 7* – The Draft Guide recommends use of an industry average of 4% to adjust for losses on the distribution system. While Hydro One acknowledges the Board's desire for simplification in this area, our cost-benefit calculation will likely utilize our approved distribution loss factors that better represent the nature of Hydro One's distribution system
- *Programs Targeting Summer vs Winter Peak, page 7* -- Hydro One agrees that both generation and transmission capacity in the Province are driven more by the summer than winter peak and therefore, we have generally focused on programs which address that issue. However, a few areas of the Province which are served by Hydro One, are winter-peaking. In these cases, Hydro One would utilize the appropriate avoided costs for the winter season.

*Free-Ridership for Large Customer Projects, page 20* -- The free-ridership rate for all large custom projects is set at 30%. Hydro One understands that this estimate was established in a 2003 study of Enbridge Gas Distribution's DSM participants. We accept this rate in the absence of other information, but also suggest that it be reviewed once reliable data and information from electric utility programs become available.

### ***Discount Rates***

A couple of clarifications on discount rates may be helpful.

Although Table D of Example 1 in Appendix B, page 26 indicates that the savings are *nominal*, they, in fact appear to be *real* savings. The avoided costs in the Avoided Cost

Analysis for the Evaluation of CDM Measures, Table 21 (Navigant, June 14, 2005, page 45) are real dollars, expressed in 2005 CAD\$, rather than nominal dollars, as the original intent was to show how the avoided costs change in real terms over time. However, to ensure ease and consistency for use in program screening, Hydro One has asked Navigant Consulting to provide a revised Table 21 (entitled Table 21 (c)), with the costs expressed in nominal dollars. This is now attached to these comments. Use of these revised costs will enable the cash flows in the TRC to be shown in “dollars of the year”, in addition to present value.

The draft Guide suggests that the discount rate should be the utility’s incremental after-tax cost of capital (see footnote 6 on page 5), which corresponds to that used in Hydro One’s Avoided Costs Study. However, since Hydro One submitted that study, we have been advised that the discount rate should be a market discount rate or for simplicity’s sake, a societal discount rate (and not the utility’s incremental cost of capital). This would better align with the TRC’s perspective, which includes cash flows of the utility and its customers net of tax effects. We understand that Enbridge Gas Distribution filed a study in EBRO 487<sup>1</sup>, which gave a range of estimates for a societal discount rate of between 5% and 9% (real), the use of which, the Board may wish to consider.

### ***Audits of Customer Projects***

Hydro One acknowledges the need for audits of custom projects, but notes that as such audits are usually very resource-intensive, a 10% audit requirement may detract from pursuing opportunities in the market. If the Board maintains this requirement, it might also wish to stress the need for utilities to factor such costs into their program planning in the Guide’s section 1.3.2, iv, “Monitoring and Evaluation Costs.”

### ***Suggested Clarifications***

- *Program Differences, page 8* -- The draft Guide notes the differences between savings estimates for different types of programs, and gives an example of replacing a refrigerator versus the option of retiring one. It should also be pointed out that the lives of measures would be also be different for different types of programs. For example, the “Retire and Remove” program in Table 1.1 accelerates the eventual removal of equipment which would eventually fail on its own, and therefore would have a shorter measure life than the Replacement program. For clarification, the measure lives (from the Assumptions and Measures list) should also be shown for the example in Table 1.1, as follows:
  - a) Replace old refrigerator with a new one. The measure life would be for the life of the new refrigerator, (19 years), whereas for
  - b) Retire and remove the old refrigerator. The measure life would be for the remaining life of the old refrigerator (six years).

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<sup>1</sup> Exhibit D2, Tab 6, Schedule 1, Appendix VII.A.

The draft Guide would make the point more clearly if the example on page 8 for refrigerators was repeated for measure lives on page 9 (where no example is currently provided).

- In support of the above point, it would be helpful if, in section 1.2.4 Equipment Life second paragraph, second sentence, the phrase “IN THE CASE OF REPLACEMENT ONLY” were inserted after the words “a simplifying assumption.”
- *Attribution, page 16.* It should be clarified on page 16 that EUMS is only required if NUD contains units of more than one energy type. If NUD counts units specific to one fuel in a multi-fuel program, then it would not be necessary to include the EUMS factor.

### ***Attributions***

Hydro One agrees with the Board’s proposals for attribution of savings when programs are jointly marketed and delivered with a non-rate regulated third party (e.g., NRCan programs) and for cross sector (gas and electric) jointly delivered CDM.

### ***Other Comments***

The TRC formula has been scaled down to exclude any extraneous calculations, making it easier to follow and understand. It accordingly, does not include fuel switching components. However, at least one fuel switching measure is shown in the Assumptions and Measures List. It is assumed that if there were such programs in the CDM portfolio, the formulas in the TRC would be amended as required, or another source may be referenced for details.

*Glossary, page 26* -- It would be helpful as a reference to include the symbols (for example,  $B_{TRC}$  on page 5) beside the terms that are contained in the Glossary (Appendix A). Presently, there is no single place where they can be looked up. Symbols and their names are scattered throughout the report wherever the formulas are shown.