

# Addendum to the Burlington Hydro Inc. Conservation and Demand Management Strategy

## Background

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

On March 31, 2010, the Minister of Energy issued a directive to the Ontario Energy Board instructing the OEB to establish electricity conservation and demand management (“CDM”) targets to be met by licensed electricity distributors (“distributors”) within the 2011 to 2014 time frame. The directive requires the OEB to make meeting CDM targets part of each distributor’s licence requirement, and specified some of those requirements.

The energy savings and demand reductions to be realized by the LDCs were to be achieved through province-wide programs being designed by the Ontario Power Authority, and – if necessary – these may be supplemented by additional programs offered by the LDCs with Board approval (Board Approved Programs or BAPs). BAPs may be offered by individual LDCs or groups of LDCs 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 LDCs and other interested parties. At the same time, the OEB released a methodology for allocating the provincial targets across LDCs that had been developed by the Ontario Power Authority.

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

Over the fall of 2010, the Board, the Electricity Distributors Association and the Ontario Power Authority hosted various information sessions and the OPA provided several tools for evaluating programs, including some of the programs the OPA plans to offer through LDCs, and Burlington Hydro participated in these sessions.

On November 1, 2010, Burlington Hydro submitted its CDM strategy to the Ontario Energy Board. Considerable work went into developing Burlington Hydro's strategy, 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 its customers. This included a consideration of the market potential based on the experience with the pre-2011 OPA programs and third tranche CDM initiatives, as well as a consideration of the barriers that its customers face.

On November 12, 2010, the Board posted updated CDM targets for each LDC. Updates were minor and Burlington Hydro's CDM targets went from 22 MW of summer 2014 peak demand and 84 GWh of energy savings to 21.95 MW and 82.37 GWh.

At the time of filing (and still), the funding formula the OPA will have with the LDCs, including Burlington Hydro was not available, and the Tier 2 and Tier 3 programs were still at the initial design stage, and budgets were not available. 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 since these were unavailable. Given that the OPA asserted that its 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 and there was not information available to Burlington Hydro from the OPA about the budgets for its programs.

On November 26, 2010, Burlington Hydro received a letter from the Board Secretary with the following direction from the Board:

The Board directs Burlington Hydro Inc. ("Burlington 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, Burlington 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, Burlington 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 LDCs 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, Burlington 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.

<b>OPA Program</b>	<b>PAB funding amount</b>
Consumer	\$1,615,630
Commercial / Institutional	\$1,784,751
Industrial	\$292,539
Total four-year PAB	\$3,692,920

The PAB is but one of five funding components that Burlington 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 9 December, 2010):

- Program administrative budget (“PAB”)
- Capability Building Funding (“CBF”)
- Participant Based Funding (“PBF”)
- Customer Incentives (“CI”)
- Cost Efficiency Incentive (“CEI”)

The preliminary budget outlined in this addendum to Burlington Hydro’s CDM Strategy covers four of the funding components: PAB, CBF, PBF, and CI. The CEI is an incentive given to LDCs 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 Board, Burlington Hydro has prepared an estimated, prospective budget for planned OPA-Contracted Province-Wide CDM Programs and Board-Approved CDM Programs. The estimated budget requirement by Burlington Hydro to meet its target is \$24,207,000, of which \$16,984,000 is for OPA-Contracted Province-Wide CDM Programs and \$7,223,000 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.

<b>Program</b>	<b>Program total</b>
OPA Industrial Program	<i>\$2,403,000</i>
OPA Business Program	<i>\$10,645,000</i>
OPA Consumer Program	<i>\$3,936,000</i>
OPA Low-income Program	NA
OPA Program subtotal	<i>\$16,984,000</i>
BAP subtotal	<i>7,223,000</i>
Portfolio total	<b>\$24,207,000</b>

## Methodology

The budget estimates 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 LDCs with confirmed strategies was also considered in setting the budget (after scaling them back proportionally to the size of Burlington Hydro's CDM targets), as was Burlington 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 Burlington 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, determine 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 Burlington Hydro. However, as is clear from the discussion above, they are based on financial constraints 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 Burlington Hydro. While Burlington Hydro's PAB has been released, the funding formula for that agreement has neither been provided to Burlington 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 Burlington Hydro service area
- The possible need for the programs to exceed energy targets in order to meet demand targets (or vice versa)
- The 'lumpiness' of technologies or programs; it may be impossible or impractical to exactly scale a technology or program to the specific target.

Burlington Hydro expects to report on progress relative to budget in its annual reports, and to advise on what, if any, adjustments are required to ensure that the targets that have been set for it are met, as are customer demands for CDM.