



Cornerstone Hydro Electric Concepts Association Inc.

July 21, 2010

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Board Secretary
Ontario Energy Board
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**Re: CREATION OF THE CONSERVATION AND DEMAND MANAGEMENT CODE FOR
ELECTRICITY DISTRIBUTORS
BOARD FILE NO.: EB-2010-0215**

Dear Ms Walli:

Attached please find Cornerstone Hydro Electric Concepts Association's comments with respect to EB – 2010-0215. The codification of CDM and inclusion of targets in the licenses of LDCs formalizes the LDC involvement in conservation for the next four years.

The CDM Code needs to meet the regulatory mandate while maintaining flexibility for the LDC to respond to market response to program offerings. In addition the Code needs to establish key parameters which the LDCs can be assured will not change over the delivery of the programs aimed at meeting the targets. The following comments focus on improving the clarity of the proposed Code, clarification of the mechanisms for implementation and delivery of programs.

1. Definitions: This first section outlines proposed changes to definitions or the addition of definitions to assist with the clarity and expectations of the Code:

1.1. "peak demand savings" Currently the definition states: means the reduction in a distributor's peak electricity demand that coincides with the provincial peak electricity demand that is associated with the implementation of CDM Programs. The definition should be altered to remove the reference to the distributor's peak electricity demand. The reference should only make reference to the distributor's demand. The revised definition would read: means the reduction in a distributor's electricity demand coincident with the provincial peak electricity demand that is associated with the implementation of CDM Programs. The LDC may not be peaking at the same time as the provincial system and hence the use of "peak" is not accurate. If however the original definition was making reference to "on peak" and "off peak" the definition could be altered by stating "on-peak" where "peak" currently appears. It is recommended the definition be reviewed for accuracy.

1.2. “OPA cost effectiveness test” The current definition does not specify which cost effectiveness test or tests are to be met. Currently the OPA Resource Planning Tool has five tests included. The current definition assumes that one or more test has been developed and set as the benchmark, which is not the case at this time. It is recommended that the OEB specifies in the Code the specific cost effectiveness test which is to be applied when evaluating CDM programs and requesting Board approval.

1.3. “Customer type” The proposed Code includes references to customer type with a breakdown included in brackets (residential, commercial, institutional, industrial). It is recommended that a definition to confirm the meaning and expectations of the customer breakdown be included. The body of the Code also makes reference to “type of customer”. The Code should be evaluated for consistency of terms to ensure the meaning is the same. It is recommended that the OEB clearly define customer type within the Code.

1.4. “pilot programs” While not included in the definitions within the Code it is defined in section 4.2.1 of the Code. Currently the definition indicates “methodologies and/or technologies that are not already in use in Ontario...”. It is recommended that the Code should state “... not already in general use in Ontario ...”. This allows for methods and technologies which are present (or in limited use) but have not gained market acceptance. The pilot program may be focused on determining how best to present the technology to the public to increase the market penetration. It is recommended that a definition of pilot programs be included in the definition section and that such programs allow inclusion of technologies “not in general use in Ontario”.

1.5. “established OPA-Contracted Province-Wide CDM Programs” The proposed Code limits the LDCs ability to apply for Board-Approved CDM Programs until the Province Wide Programs have been established. An additional section should be added to the Code to clearly specify the information which the OPA is to provide when establishing their programs. It is suggested that similar requirements as outlined for LDC Board Approved Programs be required for the Provincial Wide CDM Programs along with the projected level of participation for each LDC. It is recommended that the Board, through the Code requirement, should deem when the OPA-Contracted Province-Wide Programs have been established and that the required information has been published.

2. OPA Measures and Assumptions List: The proposed Code makes reference to the lists of measures and the associated assumptions prepared by the OPA. The utilization of the common list is supported however it is recognized that changes will be made to the list from time to time due to new measures being added or changes to existing assumptions. To ensure the consistent and transparent application of the measures and assumptions the following is recommended to be included in the Code:

2.1. Prior notice of changes: Any changes to the assumptions should be communicated to LDCs well in advance to implementation. This is important for two reasons; ability

to alter program forms and marketing material and for evaluation of impact on existing and planned program results. It is recommended that any changes to the assumptions be communicated to the LDCs a minimum 60 days prior to coming into affect.

2.2. Pre-Determined Time Frame for Changes: To further support the consistency of programs any changes to assumptions and measures should be on a specified time frame. This will allow LDCs to plan for implementation of changes on a scheduled basis. Any changes in assumptions and measures should be done in time to allow LDCs a planning window for future program delivery. It is recommended that dates for revisions to assumptions and measures be incorporate into the Code.

2.3. Implementation of Changes to Assumptions: A review of existing provincial programs indicates a number of changes over the past three years in assumptions and the associated incentives within programs. Determining when each change came into effect can be difficult to document retrospectively. It is recommended that the Code specify that any changes in assumptions and the date on which they came into effect and apply to programs be clearly documented.

2.4. Assumptions Moving Forward: Changes to assumptions should only apply to future measures not to measures already installed. Applying the assumptions to previous installations and programs delivered would negatively impact on the LDC's ability to plan programs and achieve the defined target over the CDM planning window. It is recommended that the Code should clearly indicate that changes to assumptions will be forward focused and that savings generated under previous assumptions will be maintained.

- 3. Attribution:** The details associated with attribution are handled in Section 7 of the Code under Performance Incentive. Attribution, while important for calculating incentives is more important for calculating the contribution to target, which forms part of the LDC license. An additional section should be added to the Code dealing with "Calculation of Contribution of CDM Activity to Target". This section should clearly identify the attribution of demand and energy savings to the LDCs targets. The discussion with respect to incentives is then secondary as the attributed target is then utilized to calculate any incentive which the LDC may choose to apply for. It is recommended that the Code be altered to focus attribution to target rather than incentive.
- 4. Attribution of Provincial Programs:** The Code does not specify the attribution associated with the Provincial Programs delivered by LDCs. It is recommended that the Code clearly indicates that the savings from the Provincial Programs delivered by the LDCs within their service territory will be attributed to the LDCs target.
- 5. Time of Use Attribution to Target:** At the present time the Provincial Target includes 300 to 330 MW of target attributed to Time of Use pricing. A portion of this target has been assigned to each LDC through the target setting process. The Code does not specify how this portion of target is to be tracked and accounted for in EM&V and the overall

strategy. It is recommended that direction with respect to dealing with the contribution of Time of Use pricing be included in the Code.

- 6. Transitional Periods:** The Code indicates that only implemented savings between January 1, 2011 and December 31, 2014 will be applied against the target. Considerable time may pass between project approval and implementation, especially within the commercial/industrial sector. There are two transitions points which need to be dealt with:

6.1. CDM Program Delivery Prior to January 1, 2011: The existing programs will result in projects being identified, perhaps started but not completed or fully implemented until sometime in 2011. It is important within the Code to clearly identify how the results of these programs will be attributed against the target. Due to the different conditions which may exist at each LDC it is recommended that the LDCs be allowed to self select where savings from pre-2011 projects are applied. This self selection should apply to any implementation of measures in the first half of 2011 which were initiated as a result of 2010 programs.

6.2. CDM Program Impact Beyond December 31, 2014: Projects may be confirmed and implemented late in 2014 which results in reduction in energy and peak demand in 2015. At the present time the regulatory structure with respect to CDM beyond 2014 is unknown. It is recommended that in the absence of any CDM structure beyond 2014 that the measures implemented within the first six months of 2015 be applied to the LDC targets. Further if LDC targets are identified for LDCs beyond December 31, 2014 that LDCs be allowed to self select which target the savings are applied to.

- 7. Programs vs. Portfolio Perspective:** The proposed Code requires each program to meet the cost effectiveness test. This approach may limit the overall effectiveness of the CDM effort. It is recommended that the LDC Programs be evaluated on a portfolio basis to provide additional flexibility to include programs, which on their own may not pass the test. These same programs within the LDC portfolio may strengthen the entire offering to the customer base. The use of portfolio evaluation is supported within the Code as incentives are awarded on the results of the LDCs portfolio. It is recommended that a portfolio perspective be adopted on LDC programs.
- 8. Program vs. Portfolio Costing:** In the proposed Code each program is evaluated on a stand-alone basis. The Code does not outline how planning costs for the strategy and other CDM support is to be recovered and applied within the Cost Effective Tests for programs. At the present time the Code is unclear on how to manage these portfolio costs and to include in evaluations. It is recommended that the Code provide direction on the application of support costs within the funding and evaluation framework.
- 9. Re-Allocation of Funds in Programs:** The proposed Code requires Board approval if 30% of the funds for any one project is moved to another project. Initially it was anticipated that this limited the ability of the LDC to manage the program. However with further clarity the level set in the Code may be satisfactory. If the Clause allows multiple

fund transfers without Board approval between programs as long as no program is reduced by more than 30%, then the required flexibility is provided. For instance if there are three programs each at \$100,000 and the LDC chooses to move \$20,000 from two of the programs to the third program for a total of \$40,000. No Board approval is required as no individual program has been reduced by 30%. If the preceding is not the appropriate interpretation then further clarification is required.

10. Access to Funding: The Code does not indicate how funding for the CDM Programs will be accessed or the schedule for making application for funding/cost recovery. In addition the Code does not address how the costs to prepare the strategy and other general CDM preparatory work are to be tracked or funded. Expansion of the Code to address these elements is required.

11. Global Adjustment Mechanism: Past experience with the Global Adjustment Mechanism (GAM) has resulted in negative variances to LDCs with respect to funds paid and collected. The resolution for this issue resulted in a local rate rider to capture the underfunding. This rate rider is in addition to the Global Adjustment already applied to customer bills, increasing the overall contribution and cost to the LDC's customers. The details of the application of GAM for CDM must be reviewed to ensure appropriate funding is provided through a global application without further localized cost increases through the rate system. It is recommended that the OEB review the GAM to ensure appropriate collection of funds without the requirement for any local rate riders.

12. Duplication of Pilot Programs: Concern exists with the ability to identify whether a pilot program is a duplicate of another program elsewhere in the province. The OEB as regulator should ensure that an inventory of pilot programs are maintained and is accessible to all LDCs for program planning.

13. OPA-Contracted Province-Wide CDM Programs: The details of the OPA-Contracted Province-Wide CDM Programs should be made available to LDCs with sufficient time to allow evaluation of program details and impacts prior to inclusion in the CDM Strategy and filing with the OEB. It is recommended that the full details of OPA-Contracted Province-Wide CDM Programs be made available to LDCs a minimum of 60 days prior to the November 1st submission date to the OEB.

14. OPA Contracted Province-Wide CDM Programs: In developing a CDM Strategy LDCs will most likely review the expected results from the OPA Contracted Provincial Programs, determine the remaining gap in target and develop OEB Approved Programs to meet this gap. A shortfall in achieved results from the Provincial Programs will impact directly on the need for OEB Approved Programs. It is recommended that the OEB, as part of their oversight of CDM Programming, review the assumptions made with respect to the Provincial Programs to ensure that the predicted results of the Provincial Programs are achievable.

15. Annual Report: The submission date of September 30th for the Annual Report is supported and appreciated. The September reporting date will allow time to complete the

appropriate evaluation and submit the report. The following comments are made with respect to the Annual Report:

15.1. Format of Annual Report: The proposed Code outlines the general information required for the Annual Report. To support the Code a guideline should be prepared which outlines any specific requirement for the Annual Report such as standard report format. As in third tranche a standard format was eventually required by the OEB to allow comparison of program performance and reporting across the system. It is recommended that the OEB initiate a guideline for Annual Reporting well in advance of the first reporting date and that the guideline respects the requirements as outlined in the Code.

15.2. Additional Information to Be Reported in the Annual Report: In third tranche the reporting requirements changed in the last year with a request for LDCs to break out the impact on Low Income consumers. The request for the specific information required LDCs to re-work previous reports to determine the information for summary in the final report. Such re-work can be avoided if the guidelines for reporting are established prior to the first year report and if the requirements outlined in the Code are followed.

15.3. Provincial Programs: To facilitate the completion of the Annual Report it is recommended that the Code include a section which requires the EM&V of the Provincial Programs to be produced and provided to the LDCs a minimum of 60 days before the Annual Reporting date.

16. Project Approvals: Program budgets are required to be submitted for approval. Guidance is required with respect to a standard division of costs within the program budget consistent with eventual annual reporting. A standard format will simplify any re-statement of the information and simplify the OEB review of program funding. It is recommended that the OEB develop a standard project budget format for utilization by LDCs when making application for Board Approved Programs.

17. Third Party EM&V: The majority of programs initiated by LDCs will most likely follow the measures and assumptions list of the OPA. If an LDC is working from the prescribed list it is recommended that the review by a third party for EM&V be removed for these programs. The third party review appears to be redundant at that time. In addition the EM&V costs will need to be included in the program Cost Effective Test and can impact on programs moving forward. Where prescriptive measures are applied it is recommended that the need for third party review be eliminated.

18. Incentive Mechanism: It is recommended that the incentive mechanism start at 60% to help build momentum in the program delivery.

19. Cost Efficient Measures: The proposed cost efficient measure is not supported. The proposal effectively compete LDCs against each other. In a Code which supports

collaboration and sharing use of an efficiency measure which places LDCs in competition does not appear to be consistent. In addition the proposed efficiency measure may reward LDCs which have not been active in the previous programs. The potential for CDM savings within their service territory are more likely to be higher due to the lack of previous engagement in the programs. The proposed cost efficiency measure penalizes the LDCs who have been most active to date. It is recommended that a Cost Efficiency Measure that does not place LDCs in competition and which recognized previous activities to support CDM by LDCs be developed by the OEB.

- 20. Cost Efficiency Measures and Performance Incentive:** Performance incentives and cost efficiency are two separate measures. It is recommended that if both are to be utilized that separate funding be proposed for each.
- 21. Rate of Return on LDC Business:** The proposed Code does not allow for any rate of return on the CDM activity which is inconsistent with other LDC endeavours. A rate of return on the delivery of CDM Programs consistent with the rate of return for other LDC business endeavours is recommended for inclusion in the Code. Currently the only potential return on investment is limited to 5% of annual income (incentive performance). Split over a four year period the result is 1.5% per year resulting in a low rate of return.
- 22. Reallocation of Global Adjustment for Customer Classifications:** Currently the OEB is considering the reallocation of GAM for large customers with potential transition to other customer types. The eventual impact this change could have on customer response to CDM Programs needs to be taken into account. It is recommended that a mechanism to adjust targets and CDM Strategies be developed if changes to GAM are extended to customer types other than the large users over the planning window for the CDM Strategy.

Yours truly,

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