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Susan Frank

Vice President and Chief Regulatory Officer
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BY COURIER

July 21, 2010

Ms. Kirsten Walli
Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
Toronto, ON.
M4P 1E4

Dear Ms. Walli:

EB-2010-0215 – OEB Consultation on Proposed CDM Code – Hydro One Network's Comments

Attached are three (3) paper copies of Hydro One Networks' comments on the Proposed CDM Code indicated in the Notice of Proposal to Issue a New Code dated June 22, 2010.

I have also attached proof of successful submission of these comments through the Board's Regulatory Electronic Submission System.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

Attach.

HYDRO ONE NETWORKS' COMMENTS ON PROPOSED CONSERVATION AND DEMAND MANAGEMENT CODE FOR ELECTRICITY DISTRIBUTORS

Hydro One Networks Inc. ("Hydro One") is pleased to provide comments on the proposed Conservation and Demand Management ("CDM") Code for Electricity Distributors, issued for comment by the Ontario Energy Board ("Board") on June 22, 2010.

This submission consists of three sections:

1. General comments
2. Comments on specific sections of the OEB document, titled "*Notice of Proposal to Issue a New Code – Creation of the Conservation and Demand Management Code for Electricity Distributors*"
3. Editorial comments

1. GENERAL COMMENTS

Savings from Smart Meter and Time of Use ("TOU") Rates

Hydro One fully supports the benefits of smart meters and TOU rates. The company has installed over one million smart meters in its service territory so far and is planning to migrate the majority of its customer base to TOU billing by the end of 2011.

According to the OPA CDM target allocation methodology, the aggregate LDC provincial CDM savings targets include the savings from smart meters and TOU rates. Therefore, distributors are responsible to deliver the savings associated with smart meters and TOU rates. However, Hydro One believes the Smart Meter/TOU initiative is unique when compared to other CDM programs (i.e. OPA-Contracted Province-Wide and Board-Approved) because TOU rates are set by the Board. Moreover, Smart Meter/TOU savings have been estimated by the OPA and they do not need further EM&V.

Therefore, Hydro One urges the Board to establish a "Deemed TOU Savings Credit" with the following conditions:

- Deemed credit should be on a "per customer" basis
- Credit can be applied only when (i) A smart meter has been installed and working properly (including meters installed before January 1, 2011); and (ii) The customer has been migrated successfully to TOU billing
- The "Deemed credit" should be based on % savings derived from a Board approved methodology

CDM Targets

The CDM Code requires a provision to address events beyond the distributor's control, and which have a material impact on its ability to achieve its CDM targets over the 2011 to 2014 period. Hydro One suggests a process through which distributors can apply to have part of their targets (which is affected by events beyond a distributor's control) met on a "deemed" basis. In order to avoid uncertainty in CDM planning, this process should NOT involve further shifting or re-allocation of CDM targets among distributors.

Regulatory Efficiency

According to the proposed CDM Code, distributors are required to file a number of new documents (such as CDM Strategy, Board-Approved CDM Programs Application if necessary and Annual Reports).

In order to minimize regulatory/administrative requirements, Hydro One urges the Board to work with the OPA, and the Environmental Commissioner of Ontario ("ECO") to harmonize CDM reporting requirements.

2. COMMENTS ON SPECIFIC SECTIONS OF THE OEB DOCUMENT, TITLED "NOTICE OF PROPOSAL TO ISSUE A NEW CODE – CREATION OF THE CONSERVATION AND DEMAND MANAGEMENT CODE FOR ELECTRICITY DISTRIBUTORS"

Section 7 (page 5): Performance Incentive – Adding a cost efficiency incentive structure

In general, Hydro One believes the Board's current performance incentive proposal is appropriate. Inserting an additional cost-efficiency element into the performance incentive framework is not necessary because:

- All CDM Programs need to pass the OPA's Cost Effectiveness Tests. Thus, cost efficiency has been taken into account
- Vendor contracts for CDM Programs are expected to be established through competitive bids, which will address cost efficiency

Attachment B, Section 1.7.1 (page 6): Timeframe for the Code

This CDM Code only applies to CDM Programs that start on January 1, 2011 and end on December 31, 2014 or occur anytime in between those two dates. All electricity savings (kWh and kW) resulting from CDM programs must also occur within that timeframe.

Hydro One believes this timeframe is somewhat restrictive and will result in unintended program starts and stops. Customer take up could be negatively impacted. The following changes in the CDM Code could further increase benefits from CDM Programs:

- Programs in-flight
 - Savings from “Programs in-flight” (started before Jan 1, 2011) should be counted towards the CDM targets as long as the saving is a result of CDM implementation activities that take place after Jan 1, 2011
 - Similarly, savings from “Programs in-flight” (ended after December 31, 2014) should be counted towards the CDM targets as long as the saving is a result of CDM implementation activities that take place before December 31, 2014
- Advancement of 2010 CDM target
 - Savings achieved from CDM programs delivered in 2010 in excess of contracted targets (with the OPA) should be counted towards the CDM targets. The rationale of this suggested change is:
 - Disallowing distributors to advance part of their CDM savings achieved in 2010 (savings that are beyond the contracted 2010 target) to 2011 will encourage them to stop and restart well established programs, which is counterproductive and will decrease overall cost efficiency.
 - To stop and re-start a well established CDM program will disturb its momentum and will have a negative impact on customer take-up. Overall costs will be higher.

Attachment B, Section 2.2 (page 7): Annual Reports

Section 2.2.1:

The proposed CDM Code requires distributors to file details of verified electricity savings and peak demand savings based on OPA EM&V protocols. Further, the proposed Code requires that annual reports for each year to be filed by September 30th of the following year.

Since the annual reports are highly dependent on EM&V results for OPA-Contracted Programs being made available, Hydro One recommends that the date of filing the annual reports should be “60 days after the final EM&V reports are made available by the OPA”.

Section 2.2.5 (e):

As part of the requirements of the annual report, a distributor needs to describe in detail the verified electricity savings (kWh) and peak demand savings (kW) based on the OPA EM&V Protocols.

Hydro One suggests that any future changes in program assumptions (e.g. revised free-ridership assumptions) due to EM&V results should only affect results for the period after the assumptions have been updated (i.e. prospectively and NOT retroactively). This recommendation is consistent with section 7.3 of the Board’s “*Guideline for Electricity Distributor Conservation and Demand Management EB-2008-0037*”, issued on March 28, 2008.

Attachment B, Section 2.3 (page 8): Co-ordination with the OPA

The proposed CDM Code requires distributors to review the OPA-Contracted Province-Wide CDM Programs that are available, and to not apply for Board approval of a program that duplicates an existing OPA-Contracted Province-Wide program. The criteria described in Section 2.3 of the proposed CDM Code effectively prevent distributors from developing CDM programs that duplicate OPA-Contracted Province-Wide CDM Programs.

While Hydro One agrees that duplicative programs are inefficient and should be avoided, it also believes that OPA-Contracted Province-Wide Programs may not be the most effective tools for specific customer segments. CDM programs for different customer segments have distinctive requirements. Most distributors work and communicate with their customers closely and therefore are better positioned to tailor their CDM programs to satisfy and attract specific customer segments. These specifically tailored CDM programs could be similar to the OPA-Contracted Province-Wide Programs in nature but would be more effective and suitable for the specifically targeted customer segments. Therefore, Hydro One suggests the following section to be added after section 2.3.3 of the proposed CDM Code:

“2.3.4 Specific Local or Regional CDM Programs are exempted from the conditions defined in section 2.3.3 provided that one or more of the following criteria are satisfied:

- *The local/regional program must satisfy the needs of a specific customer segment (e.g. programs specifically designed for hospitals, municipalities, small commercial segments, etc.).*
- *The local/regional program must address the needs of a specific geographic area (e.g. programs addressing the needs of rural customers in northern Ontario, etc.).*
- *The local regional/local program must focus on an entire system application aiming at technical, educational and operational efficiencies (e.g., compressed air systems, Monitoring and Targeting Systems, etc.), as opposed to specific stand-alone end-uses/technologies (e.g. lighting, motors, etc.)*

Attachment B, Section 3 (page 8): Board-Approved CDM Programs

Section 3.1.1:

Section 3.1.1 of the proposed CDM Code states that *"A distributor shall not apply for Board-Approved CDM Programs until the OPA has established its first set of OPA-Contracted Province-Wide CDM Programs"*.

The release of OPA program design, energy/peak savings and costs through OPA working groups (as of July 22, 2010) is assumed to satisfy the requirements for being

“established programs”. Moreover, Hydro One understands that all OPA-Contracted Province-Wide Programs have been approved by the OPA Board on June 22, 2010.

Section 3.1.5 (a) and (b):

Section 3.1.5 (a) and (b) of the proposed CDM Code do not allow a distributor to apply for CDM programs that “relate to a distributor’s investment in new infrastructure or replacement of existing infrastructure” or “relate to any measures a distributor uses to maximize the efficiency of its new or existing infrastructure”.

Hydro One believes these restrictions could prevent distributors from pursuing CDM programs that could in addition to providing energy and peak savings also contribute to maximizing efficiencies of distribution infrastructure. For example, an “In-Home Voltage Reduction Program” can be utilized during peak hours to relieve overall system constraint and it also can be utilized to manage distribution reliability requirements.

Attachment B, Section 4.2.1 (page 11): Pilot CDM Programs

Section 4.2.1 (c) states that “A pilot CDM program will only be eligible for approval by the Board if: the distributor has already applied to the OPA for CDM program funding and was not approved by the OPA.”

Hydro One has the following comment:

- Distributors are responsible for developing Board-Approved CDM Programs (also known as tier 2/3 programs) and the OPA is responsible for developing province wide CDM programs (also known as tier 1 programs). To be consistent, distributors should only apply to the Board (not to the OPA) for tier 2/3 pilot programs

Attachment B, Section 5.6 (page 12): Accounting Treatment

This section states that “A distributor shall not be the owner or beneficiary of any Environmental Attributes that are related to or result from Board-Approved CDM Programs”.

The CDM Code should allow a distributor to propose a program design under which environmental attributes are awarded to customers in proportion to their contribution to the cost of the efficiency measures. Such a design provision may be essential to the marketability of some programs, within certain market segments.

Attachment B, Section 7 (page 13): Performance Incentive

Section 7.1.2 and 7.1.3 – Centrality Test

Section 7.1.3 states that: “If a distributor’s role does not meet the test for centrality set out in section 7.1.2, the distributor shall then submit a proposal for an attribution of benefits to the Board for approval and the Board will determine whether the proposal is acceptable.”

Hydro One suggests that both section 7.1.2 and 7.1.3 should be removed from the CDM Code because:

- The *Green Energy and Green Economy Act, 2009* enshrines the role of distributors being central to the delivery of CDM savings.
- The proposed requirement (Centrality test) would be counterproductive as distributors will be motivated to pursue CDM programs that have budgetary contribution of over 50%. Thus, incentivising distributors to duplicate rather than leverage existing or developing programs in the market place.
- The proposed requirement (Centrality test) would also discourage co-operation and synergy among distributors and other agencies.

Section 7.2 – Calculation of the Performance Incentive:

Hydro One has the following comments regarding the calculation of the performance incentive.

- The Board needs to further clarify calculations. Hydro One suggests sample calculations to be added (as an appendix) to this document
- For simplicity, the Board may want to consider an incentive structure with less tiers
- The Board may want to consider re-aligning the incentive structure in such a way that distributors will receive appropriate incentive for performance at a more realistic and achievable target (140% is almost impossible to achieve)

3. EDITORIAL COMMENTS

Attachment B - Section 2.1.1 (c) on page 6, Section 3.2.1 (c) on page 10:
Attachment B, Appendix B, Section 7.1 (page 19):

The words "as far as is appropriate and reasonable" should be followed by the words "as determined by the distributor" to make it clear that distributors should determine what is appropriate and reasonable.

Attachment B - Section 2.1.4 on page 6, Section 2.2.3 on page 7:

The term "public review" should be changed to "public inspection" or "public viewing"; the word review implies that the public has a right to review and comment on the strategy which it doesn't.

Attachment B - Section 2.2.4 on page 7:

The word "previous" should be added before the word "calendar".