



Board Secretary
Ontario Energy Board
2300 Yonge St
27th Floor
Toronto, ON M4P 1E4

February 15, 2011

Dear Ms. Walli,

Re: Addendum to Halton Hills Hydro Inc.'s CDM Strategy

Please find enclosed Halton Hills Hydro Inc.'s Addendum to its CDM Strategy, original filed November 1, 2010 and requested by the Board Secretary in the letter dated November 29, 2010.

A copy of the CDM Strategy Addendum has also been filed through the Web Portal and e-mailed to the Board Secretary.

In the event of any additional information requests, questions, or concerns, please contact Tracy Rehberg-Rawlingson, Regulatory Affairs Officer, at tracyr@haltonhillshydro.com or (519) 853-3700 extension 257.

Sincerely,

Tracy Rehberg-Rawlingson
Regulatory Affairs Officer
Halton Hills Hydro Inc.

Cc: Arthur Skidmore, President & CEO, Halton Hills Hydro Inc.
Linda Boyer, CDM Officer, Halton Hills Hydro Inc.



Addendum to Conservation and Demand Management Strategy

Total Reduction in Peak Provincial Electricity Demand (MW) Target: 6.15

Total Reduction in Electricity Consumption (GWh) Target: 22.48

Addendum to the Halton Hills Hydro Conservation and Demand Management Strategy

Background

This document responds to a request from the Ontario Energy Board to supplement the filing by Halton Hills 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 Halton Hills 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 Halton Hills Hydro participated in these sessions.

On November 1, 2010, Halton Hills Hydro submitted its CDM strategy to the Ontario Energy Board. Considerable work went into developing Halton Hills 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 Halton Hills Hydro's CDM targets went from 6 MW of summer 2014 peak demand and 23 GWh of energy savings to 6.15 MW and 22.48 GWh.

At the time of filing (and still), the funding formula the OPA will have with the LDCs, including Halton Hills 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 Halton Hills Hydro from the OPA about the budgets for its programs.

On November 29, 2010, Halton Hills Hydro received a letter from the Board Secretary with the following direction from the Board:

The Board directs Halton Hills 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, Halton Hills 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, Halton Hills 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, Halton Hills 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	\$476,785
Commercial / Institutional	\$542,328
Industrial	\$71,851
Total four-year PAB	\$1,090,964

The PAB is but one of five funding components that Halton Hills 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 Halton Hills 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, Halton Hills 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 Halton Hills Hydro to meet its target is \$6,460,000, of which \$4,698,000 is for OPA-Contracted Province-Wide CDM Programs and \$1,762,000 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 Industrial Program	\$579,000
OPA Business Program	\$2,567,000
OPA Consumer Program	\$1,552,000
OPA Low-income Program	NA
OPA Program subtotal	\$4,698,000
BAP subtotal	\$1,762,000
Portfolio total	\$6,460,000

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 LDCs with confirmed strategies was also considered in setting the budget (after scaling them back proportionally to the size of Halton Hills Hydro's CDM targets), as was Halton Hills 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 Halton Hills 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 Halton Hills 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 Halton Hills Hydro. While Halton Hills Hydro's PAB funding has been released, the funding formula for that agreement has neither been provided to Halton Hills 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 Halton Hills 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.

Halton Hills 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.