



Date: July 7, 2010

**RE: *ENWIN* Submission on the proposed OPA methodology for allocating LDC CDM targets (EB-2010-0216)**

EnWin is committed to ensuring that targets allocated to distributors, regardless of their nature, are fairly established through rigorous methodology and in accordance with the principles of causality, materiality and prudence, to the extent that each of these principles are applicable to the targets and their respective methodology.

Although *ENWIN* acknowledges that the aggregate CDM targets as established in the Minister's Directive are not subject to negotiation or alteration, *ENWIN* is concerned about prudence of the allocation methodology used by the OPA in assigning the targets to individual LDCs.

In particular *ENWIN* is concerned that the OPA's methodology falls short in establishing fair CDM targets that take into account regional, local or evolving circumstances.

As such *ENWIN* is uncertain of both the prudence and the causality of the OPA's CDM target setting methodology.

**Comparison between OEB and OPA methodologies:**

	YEARS OF HISTORICAL DATA	DATA	OUTLOOK TYPE	OUTLOOK TIMEFRAME
<i>OEB RATE SETTING</i>	MANY (3-4)	TRENDS	FORECAST	1-2 YRS
<i>CDM TARGET SETTING</i>	FEW (1-2)	STATIC OR AVERAGE	HISTORIC	4 YRS

The OEB rate setting methodology is the product of decades of experience, experimentation and modification that is designed to achieve

a prudent outcome. The analytical complexity is geared to ensure a fair outcome that strikes a balance between the needs of the rate-payer and the needs of distributor.

The OEB's established methodology looks at relatively long-term (compared to CDM methodology) data, usually in the three to four year range to establish a historical trend, from which a forecast can be extrapolated.

As a part of this process, the OEB takes into account additional data such as population growth studies, economic forecasts and factors into account issues such as weather normalization, before the forecast is reached.

Despite the depth of data and analysis, the OEB's forecast is generally applied to only 1-2 future years for ratemaking purposes. The outcome is considered to be fair, prudent, material and with the proper causal link between the forecast and the data.

This is in stark contrast to the proposed CDM target allocation methodology which requires no more than two years worth of broad system usage data from which to begin the analysis. The analysis based on a static or averaged analysis of the chosen historic data.

Yet with relatively limited data, the OPA has drawn up fixed CDM targets for a four year outlook. This outlook does not have regard for local or regional trends that may affect the viability of the CDM targets. As a result the CDM allocation is based on past performance, with little regard to meshing the targets with current and projected conditions.

### **Lack of consideration for Local and Economic Factors**

The macro-level planning assumptions used by the OPA (such as the "sustained economic downturn" scenario) may not be reflective of local conditions and regional variations. For example even if the province were to see an economic uptick in the coming years and macro-level planning assumptions were adjusted accordingly, it is unlikely to match regional economic conditions in *ENWIN's* service area.

For example, the GWh usage in *ENWIN's* service area has dropped from 3242.09 GWh in 2005 to 2813.28 GWh in 2008. With at least one Large User permanently shuttering its business as of August, the general trend of declining system usage is expected to continue.

Considering that declining system use through regional and economic trends will change *ENWIN's* system usage in proportion to the rest of the province, the forward allocation of a CDM target based on a limited set of

historical data and no regard for future trends is not objectively reasonable or justified. Simply put, the targets will not align with, or be reflective of, current and projected usage.

The allocation methodology should be amended to take into account LDCs' specific conditions such as customer growth and decline, economic outlook and load forecasts to assign CDM targets, especially where these targets will be conditions of a distributor's licence. Provincial Government objectives and directives do not override the statutory obligation of the OEB to set reasonable and justified licence conditions.

### **Inflexible Targets and Assumptions**

As stated earlier, the OPA is proposing incremental four year fixed CDM targets based on relatively narrow methodology.

There is currently no requirement that the OEB assign fixed targets. The only requirement is that the sum total of the targets equal or exceeds the targets assigned in the Directive. Accordingly it remains within the OEB's power to adjust individual LDC target on an annual basis and would be possible if the OPA developed a more robust, forward projecting, CDM-allocation methodology as recommended above.

It would be prudent if the OEB assigned CDM targets that could be adjusted on a year by year basis to better reflect changes in local and regional condition, which would continue to ensure that the CDM allocation remains fair and prudent.

### **Balancing Program Implementation and Outcome Issues:**

*ENWIN* is concerned about the ability of the OPA developed tools and programs in achieving the required targets.

According to the latest data available to *ENWIN*, the OPA developed Tier 1 programs will not achieve the 2014 reduction targets (for both peak reduction and aggregate consumption).

While the OEB and OPA have invested a considerable amount of time in the development of the targets, codes and projects, there has been almost no discussion as to the impact or penalties on an LDC if it cannot meet verifiable targets despite a full implementation of the programs. This leaves LDCs in a vulnerable state. With little time between portfolio design and implementation, developing unique Tier 2 or 3 programs will be difficult.

Furthermore the OEB and the OPA have remained silent on how parallel initiatives such as TOU will be counted toward peak demand reduction.

This is important since TOU has been designed specifically to load shift and reduce system peak use, inline with the CDM goals and objectives.

Given the range of uncertainties stemming from a program standpoint, *ENW/N* urges that the OPA to adopt a flexible approach in dealing with potential implementation issues.

### **Conclusion**

Based on the proposed methodology for CDM target allocation, *ENW/N* remains uncertain of the prudence and causality of the allocation outcomes.

*ENW/N* is of the opinion that any CDM allocation methodology mirror existing planning processes and be allocated based on current and forecasted local conditions affecting individual LDCs.

The CDM targets should adjustable to on a year by year basis to take into account evolving local conditions.

The methodology should be adjusted to ensure a prudent outcome with the appropriate causal links.