

June 13, 2011
Ms. Kirsten Walli
Ontario Energy Board
PO Box 2319
27th Floor, 2300 Yonge Street
Toronto, Ontario M4P 1E4

Re: Amendment to CDM Strategy

Board File No.: EB-2010-0215

Dear Ms. Walli,

As requested by the Board, please find attached Kingston Hydro's budget addendum amendment to its original Conservation and Demand Management ("CDM") Strategy filed with the Board on November 1, 2010. The addendum provides proposed budgeted figures along with a description of the methodology used to arrive at those figures.

If you have any questions or concerns, please do not hesitate to contact us.

Yours truly,



Stephen W. Sottile,
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CC: Jim Keech, President & CEO, Kingston Hydro
Jim Miller, Manager – Technical Services, Utilities Kingston

Addendum to Kingston Hydro's 2011-2014 Conservation and Demand Management Strategy

This document responds to a request from the Ontario Energy Board to supplement the filing by Kingston Hydro of a strategy for meeting energy and demand reduction targets over the period from 2011 to 2014.

This supplement provides a preliminary budget for Kingston Hydro's efforts to meet its targets of a 6.6 MW peak demand reduction and a 37 GWh annual consumption reduction. In addition to the budget itself, the methodology that was used is described.

Budgetary Assumptions

As outlined in the 2011-2014 CDM Strategy previously filed by Kingston Hydro, local implementation of Ontario Power Authority (OPA) contracted programs will be the primary means of achieving and exceeding its targets. If necessary, OPA Contracted programs will be supplemented with Tier 2 or Tier 3 Ontario Energy Board approved electricity conservation programs. The nature, design, and budgets for these "Board Approved Programs" (BAPs) will be determined based on the magnitude of the gap between OPA program performance and CDM target levels; however, for budgeting purposes, Kingston Hydro does not believe it to be necessary to include BAPs in its CDM strategy budget. Justification for this position is provided below.

The OPA asserted that its programs would cover an average of 91% of the provincial energy consumption target and 78% of the provincial 2014 demand reduction target across all LDCs. Kingston Hydro's customer and load profile along with other factors make it reasonable to assume that it will meet nearly 100% of its energy consumption target and exceed its peak demand target employing OPA programs alone.

Kingston Hydro's major load customers are large institutions, residential complexes, and smaller commercial customers whose main loads are lighting and HVAC related. As such, OPA programs cover a higher than provincial average amount of potential energy consumption reduction measures compared to other LDCs in Ontario. Kingston Hydro has close relationships with these large customers, and they have been and continue to be engaged in large CDM efforts in line with OPA program design. With a service territory that is almost completely built out and is bounded by three water bodies and the 401, there is limited opportunity for conservation efforts related to new growth that fall outside of the OPA program portfolio. It is therefore assumed that a very small gap, if any will exist between OPA program results and Kingston Hydro's 37 GWh consumption reduction target.

In early 2011, Kingston Hydro worked with a large customer to connect and enable 5 MW of natural gas co-generation capacity to register for the OPA's Demand Response 3 program for a 5 year term. As such, Kingston Hydro has already met 75% of its demand reduction target. A further 2.5 MW of demand response capacity can be enabled with modifications to the Kingston Hydro system and this particular generator which are planned within the target period timeframe. This potential, in combination with demand reductions resulting from OPA retrofit and Demand Response initiatives undertaken by other customers, should result in Kingston Hydro being able to exceed its peak demand reduction target solely through OPA contracted programs.

For these reasons, Kingston Hydro is not budgeting BAPs in its 2011-2014 CDM Strategy at this time. If upon the first annual report due in 2012 these assumptions are proven inaccurate, a BAP budget and strategy revision will be filed with the OEB.

Kingston Hydro 2011-2014 CDM Budget

At the time that Kingston Hydro filed its CDM Strategy with the OEB, the funding formula for OPA-contracted programs was not finalized. Kingston Hydro did offer comprehensive preliminary conservation program administration budget estimates by program category in section 4.3 of its strategy.

On November 23, 2010, Kingston Hydro received a letter from the Board Secretary with the following direction from the Board: "The Board directs Kingston 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, Kingston Hydro may use a methodology of its choice. Alternatively, Kingston 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."

The preliminary budget outlined in this addendum to Kingston Hydro's CDM Strategy covers the following four funding components as they relate to OPA Contracted Programs:

- Program administration budgets for each customer segment ("PAB")
- Capability Building Funding ("CBF")
- Participant Based Funding ("PBF")
- Customer Incentives ("CI")

Upon confirmation of the OPA program administration budgets and release of the OPA program schedules, Kingston Hydro has confirmed the following PABs for 2011-2014:

• Consumer Programs:	\$615,336.29
• Commercial & Institutional Programs:	\$807,146.35
• Industrial Programs:	\$105,830.83
• Low Income Programs:	\$85,529.89
• <u>Portfolio Total PAB:</u>	<u>\$1,613,843.36</u>

In order to meet 100% of both its Consumption and Demand CDM targets, Kingston Hydro projects the following expenditures on customer incentives will be necessary:

• OPA Consumer Programs (Including Low Income):	\$1,450,000
• OPA Commercial & Institutional Program:	\$5,050,000
• OPA Industrial Program:	\$800,000
• <u>Portfolio Total Incentives:</u>	<u>\$7,300,000</u>

It should be noted that Kingston Hydro's largest customers are institutional. The three largest customers are institutions that are considered Large Users, with demands averaging over 5MW. As such, they may be considered eligible for either Commercial & Institutional or Industrial category programs and incentives. Depending on the programming mix that is chosen by these customers, the incentive budget split between these program categories may shift, though the total incentive level should not be materially affected.

The customer incentive expenditure estimates above were developed using the following methodology:

1. Kingston Hydro estimated the average incentive level per kWh and per kW of consumption and demand reductions in each customer class based on projections of the types and numbers of measures likely to occur in each customer class, their prescriptive or custom incentive levels as published by the OPA, and likely free-ridership factors. This step included use of the OPA's resource planning tool, estimates of cost based on the projected split between lighting and non-lighting measures for each customer class, and benchmarking projected costs against published information from comparable LDCs. The incentive levels averaged \$740/kW for demand reductions and \$0.065/kWh for consumption reductions across all customer classes.
2. Kingston Hydro multiplied the projected 4-year kWh and kW totals for Consumer, Commercial & Institutional, and Industrial customer classes contained in section 4.4 of its 2011-2014 CDM Strategy by the average incentive level per kW or kWh determined for each customer class in Step 1.
3. Kingston Hydro compared its average ratio of PAB budgets to incentive and/or total budgets published by comparable LDCs. It also calculated average the per customer expenditure for each rate class using OEB Electricity Distributor's Yearbook Data and published CDM budgets from other LDCs accepted by the OEB. As Kingston Hydro estimates of customer incentives generated by following steps 1 & 2 were comparable (within 10%) of the ratios of PAB to incentive levels and the per-customer costs for comparable LDCs, it was determined that Kingston Hydro's budget estimates were reasonable and in line with industry norms.