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September 28, 2007

Kirsten Walli
Board Secretary
Board Secretary Office
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Guelph Hydro Electric Systems Inc. C&DM Third Tranche Program RP-2004-0203 / EB-2005-0203 Funding Variance and Extension

We are writing you in regards to a formal request for an extension to and variance within our Conservation & Demand Management (C&DM) funding. Guelph Hydro Electric Systems Inc. (GHESI) approved C&DM funding for Guelph was $1,156,560, Board File Number RP#2004-0203 and $23,723 for Wellington Electric Distribution Company (WEDCO), Board File Number EB#2005-0203. GHESI and WEDCO merged operations in 2006, resulting in the combining of C&DM program funds in 2006. As per the approved program total of $1,180,283, GHESI has been able to spend the money in the general program areas allocated with few exceptions.

However, as circumstances arose, we have been put into a position that requires a reallocation of funds that will have us exceed a 20% variance. Additionally, despite our efforts to meet the overall September 30, 2007 program completion deadline, we have encountered some difficulties in meeting this date for specific projects described below.

We respectfully request the OEB dispose of the proceeding without a hearing pursuant to subsection 21 (4) (b) of the Ontario Energy Board Act. The reason for this request is that the reallocation of funds will not adversely affect the Guelph Hydro rate base, and the program will be completed within the originally approved program budget.

Variance:

The history and justification for the variance is as follows:

A summary of the various programs, their original budgets and estimated final expenditures is attached in a PDF file for your information as ***Table 1: GHESI C&DM Program Summary***. Please note that many of the line items in the table appear to be "reallocations" to new programs, but are rather redefinitions of the programs driven by our accounting system. This was done to streamline the regular reporting requirements that evolved after the initial Third Tranche application process in 2004.

Significant variances from the original programs are as follows:

1. **Low Income:** Willow Place Upgrades, followed by Residential REEP, followed by various other smaller programs. In the design of the original program, the intent was to broadly cover our entire customer base, including an allocation of $160,000 in the Low Income area. The largest project identified under this area was an energy audit to be followed by incentives for energy efficiency upgrades in low income properties, more specifically Willow Place, an eight storey multi-unit building in Guelph. Despite extensive efforts spanning many months on our part, we could not obtain a firm commitment to proceed, unless the upgrades were 100% funded by GHESI. This building contains individually metered electrically heated units, and the property manager could not convince their Board of Directors to pay for a portion of the upgrade costs, even though there were many convincing arguments to proceed. We eventually realized that we would need to move on, and in doing so, tried to maintain the funding in the Low Income area. We then decided to partner with the Elora Centre for Environmental Excellence and Green Communities Canada to deliver "extended measures" for energy efficiency improvements as part of a program targeting low income electrically heated homes. We anticipated spending the $135,000 balance of the low income funds in this area. Unfortunately, we again discovered how difficult it is to provide incentives to encourage change in the low-income area, again after months of effort. The uptake in this program is terribly disappointing, less than $4,000 in improvements at two electrically heated residential homes. We are awaiting the final detailed outcome of the program, and will provide more detail under "Lessons Learned" in the year-end report, but again were left to reallocate funds to other program areas. As we were running out of time to meet the September 2007 deadline, we reallocated the $135,000 Low Income balance between two new initiatives, $25,000 towards an exciting new Community Energy Benchmarking project, $75,000 on a very successful Earthday Action Campaign, and the balance towards Portfolio Administration and Delivery Costs. The Community Energy Benchmarking Project will enhance energy conservation in the residential sector of Guelph by providing a benchmarking platform where residents can compare their actual household energy (electricity, gas, transportation) and water usage with all other households and with similar households; a kiosk system to provide community access to sustainability indicators and improve their knowledge on energy and conservation, and innovative and interactive educational materials relating benchmarking indicators and behaviour to energy and conservation topics. The Earthday Campaign is an educational fundraiser where GHESI has partnered with the local school boards and their students for the sale of Earthday Kits containing CFLs, dye tablets to test for leaky toilets, and various other educational materials. In the spring 2007 campaign, over 2,000 of the 10,000 kits were sold. We require additional time to sell and account for the remaining Earthday Kits.
2. **Portfolio Administration and Delivery**: We are currently using third party contractors to assist in the delivery and reporting requirements for the Third Tranche programs. This estimated $114,000 cost was not identified or included as a line item

in the original program application. Over time we have discovered that this external third party assistance is necessary to facilitate delivery of the programs.

3. **Distributed Energy**: The original budget of $130,000 was expanded to $232,554 as we again had difficulty in pursuing the “Builder Partnerships” envisioned in the original program design. A total of $101,054 was reallocated from “Builder Partnerships” into Distributed Energy, to incent a single larger-scale project in the form of a 500 kW natural gas fired stand-by generator at GHESI’s service centre. The generator will be used to provide back-up power for our administration building along with providing peak-shave capabilities. GHESI will be able to contribute to provincial load reduction efforts by offsetting building load as well as supplying up to 200 kW to the grid during those periods where system demand is high. The environmentally friendly generator will also assist in the IESO’s Emergency Demand Response program when required.
4. **City Leadership: Wastewater Treatment**: The final significant reallocation is an increase of $50,000 to a total of $100,000 to the City of Guelph to incent the installation of a cogeneration facility at their Wastewater treatment plant. This facility will generate 580 kW using methane gas from the digesters at the Wastewater Treatment Plant. The increased incentive was an important component in ensuring that the project would be undertaken by the City. Again this project also requires an extension, as for various reasons discussed below, will not be completed and commissioned until May 2008.

The overall effect of these significant variances from the original program is as follows:

Program	Variance
Low Income	**$135,000**
Portfolio Administration and Delivery	**$114,000**
Distributed Energy	**$101,054**
City Leadership: Wastewater Treatment	**$50,000**
Total Variance:	**$400,000**
Total Approved Budget:	**$1,179,723**
Percentage Variance:	**34%**

Again, we respectfully request the OEB dispose of the proceeding without a hearing pursuant to subsection 21 (4) (b) of the Ontario Energy Board Act, the reason being that the re-allocation will not adversely affect the Guelph Hydro rate base.

<u>Extension:</u>

Also within this letter is our formal request to extend the funding available for some programs within the mix of our C&DM portfolio. A summary of the various programs, completion status as of September 2007, and expected completion dates is included in ***Table 2: GHESI C&DM Program Summary Projected Completion Dates*** below. This table identifies specific programs that require additional time to complete, described in more detail below.

1. **City Leadership: Wastewater Treatment:** GHESI has allocated funds in the order of $100,000 for the City of Guelph. The approved funding is for a cogeneration project

expected to generate 580 kW using methane gas from the digesters at the Wastewater Treatment Plant. The project was originally expected to be completed by September of 2007. However internal delays over the spring and summer months regarding City Council approval, selection of the consultant to issue the project RFP, and other issues caused the project's substantial completion and commissioning dates to slip to February 2008. We had established agreed to milestones with the City of Guelph and have applied partial payment of the incentives as the milestones were met. Full payment, $100,000 as is allocated, is to be paid in full and was to occur no later than March 2008. In early September 2007 we learned that the City had experienced additional delays due to difficulties in obtaining appropriate approvals required to initiate construction from the Ontario Ministry of the Environment. These delays will result in substantial project completion delayed until May 20th, 2008, as indicated in the City of Guelph's Cameron Walsh email dated September 5, 2007 included below.

2. **Load Control:** The Upper Grand District School Board (UGDSB) provided data for two projects submitted for Grange Hill Public School and Southcreek Public School. Estimated project costs for the installation of brand new Automation Systems in the two schools are $90,000 for Grange Hill Public School and $83,000 for Southcreek Public School. In working with the UGDSB we were advised that the Automated Control Systems for these schools were unlikely to proceed without financial incentives, as project tender costs came in higher than expected, and the subsequent need to reduce total project costs. Incentives of 35% of total project costs, estimated at $31,500 and $29,050 respectively for the two schools, were provided to encourage the projects to proceed. However, extensions are required for these two load control projects, as the timeline for implementation took longer than expected. Southcreek Public School will be completed by year end 2007, and Grange Hill Public School will be completed by June 2008.
3. **Other:** The other projects identified in Table 2 with a December 31, 2007 completion date are essentially complete, but we are awaiting final details and invoicing in order to finalize the accounting for these projects.

Again, we respectfully request the OEB dispose of the proceeding without a hearing pursuant to subsection 21 (4) (b) of the Ontario Energy Board Act. The reason being that the re-allocation will not adversely affect the Guelph Hydro rate base.

If you or your staff should have any questions, please feel free to call me.

Yours truly,
GUELPH HYDRO ELECTRIC
SYSTEMS INC.

M. D. Weninger, P. Eng.
Director of Metering & Communications

Encl.
cc A.G.Stokman, President
D. Frey
G.Boccolan

Table 2: GHESI C&DM Program Summary Projected Completion Dates

Prgm Ref	ID	Program Name	Revised Total Budget	Expenditures to Aug 2007	Committed / In Progress	Estimated Final Expenditures	Projected Completion Date
4.10	G1	Education and Promotion	$170,000	$141,488	$25,000	$166,488	Dec 31, 2007
4.20	G2	Low Income	$25,000	$24,572	$0	$24,572	Completed
4.30	G3	City Leadership: LED Lighting	$43,655	$43,655	$0	$43,655	Completed
4.60	G4	Metering Pilot	$75,000	$74,447	$2,500	$76,947	Dec 31, 2007
4.80	G5	Tech and Research	$44,403	$44,403	$0	$44,403	Completed
4.11	G6	Air Conditioning	$7,446	$7,446	$0	$7,446	Completed
4.10	G7	Distributed Energy	$232,554	$232,554	$0	$232,554	Completed
4.30	G8	City Leadership: Building Retrofit	$115	$115	$0	$115	Completed
4.70	G9	Load Control	$509	$509	$0	$509	Completed
4.30	G10	City Leadership: Water Treatment	$100,000	$50,000	$50,000	$100,000	May 20, 2008
4.40	G11	System Optimization	$108,000	$58,232	$52,455	$110,687	Dec 31, 2007
4.50	G12	Power Factor Correction	$0	$0	$0	$0	Completed
4.50	G12	University of Guelph	$20,625	$0	$20,625	$20,625	Dec 31, 2007
4.90	G13	ENERGY Smart / Builder Partnerships	$1,500	$1,500	$0	$1,500	Completed
4.30	G14	City Leadership Community Energy Plan	$25,000	$25,000	$0	$25,000	Completed
4.20	G15	Residential REEP	$4,000	$0	$4,000	$4,000	Dec 31, 2007
4.10	G16	Earthday Environmental Action	$75,000	$131,663	-$56,000	$75,663	Apr 30, 2008
	G17	Load Control - School Board	$125,300	$0	$125,300	$125,300	
			Three projects with estimated value of $93,800 completed by:				Dec 31, 2007
			One project with estimated value of $31,500 completed by:				June 1, 2008
	G18	GEL Energy Benchmarking Kiosk	$25,000	$0	$25,000	$25,000	Dec 31, 2007
	G19	Portfolio Delivery & Administration	$108,402	$82,192	$31,565	$113,757	Apr 30, 2008
			$1,191,509	$917,776	$280,445	$1,198,221	

<Cameron.Walsh@guelph.ca>
09/05/2007 11:29 AM

To <mweninger@guelphhydro.com>
cc <Janet.Laird@guelph.ca>, <Kiran.Suresh@guelph.ca>, <Ryan.Hagey@guelph.ca>, <astokman@guelphhydro.com>, <gboccalon@guelphhydro.com>
bcc
Subject Cogeneration Upgrade Incentive

Dear Mr. Weninger:

Thank you very much for your cheque in the amount $25,000 in recognition of meeting the second incentive milestone of the Cogeneration upgrade capital project. As ever, we are pleased to be working with Guelph Hydro and are grateful for Guelph Hydro's guidance and support with respect to this exciting project.

Also, as noted, the schedule for substantial completion has slipped from the previously anticipated date February 2008 to May 20th, 2008. This is attributable to delays realized in obtaining the appropriate approvals required to initiate construction from the Ontario Ministry of the Environment (MOE). The MOE worked to expedite the turnaround and minimize further delays and we are grateful for their support here as well. This is offered for context in support of your inquiry and anticipated advocacy to the Ontario Energy Board re confirmation that this unanticipated delay will not adversely affect the third and final milestone incentive payment of $50,000.

Thanks again for your continued support and please feel free to pass along any questions, comments, or concerns.

Best regards,

Cameron Walsh, C.E.T. | Manager, Wastewater Services | City of Guelph | Environmental Services
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