

October 30, 2009

Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, Ontario
M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

**Re: Union Gas Limited – DWHR Performance Incentive Scorecard
2010 Demand Side Management Plan (EB-2009-0166)**

Dear Ms. Walli:

Please find attached Union's updated 2010 Market Transformation Demand Side Management Plan.

On September 30, 2009 the Board issued its EB-2009-0166 Decision and Order. In the Board's Decision, Union was directed to file a proposed DWHR scorecard which reflected a consensus with Union's Evaluation and Audit Committee ("EAC").

Pursuant to the Board's direction, Union has worked with its EAC and the attached Plan contains a revised scorecard for Union's Drain Water Heat Recovery ("DWHR") Market Transformation ("MT") Program with consensus approval from the EAC.

In its decision, the Board also requested that the MT scorecards for Union and Enbridge Gas Distribution ("EGD") be similar. Both Union and EGD's scorecards are aligned with respect to the elements of the MT programs being evaluated. While the scorecard components are aligned, there are some differences with respect to how targets are set for the respective utilities' programs due to their differing levels of maturity.

It is worth noting that an expected outcome of MT programs is increased market penetration which inevitably leads to a reduction in opportunities for the promotion of a given measure.

During the Market Transformation discussions with the EAC, the framework surrounding the nature of the incentive payment structure was raised. Union acknowledges, without prejudice, that the EAC has expressed a concern with respect to the incentive paid should Union achieve a total score of less than 50% in 2010. It is understood that the EAC and intervenors will have the opportunity to submit their positions on Union's 2010 Market Transformation scorecard and associated incentive payment as part of the 2010 deferral disposition process.

If you have any questions, please contact me at 519-436-5476.

Yours truly,

[original signed by]

Chris Ripley
Manager, Regulatory Applications

cc: Crawford Smith (Torys)
EB-2009-0166 Intervenors

2010 Market Transformation Plan

Introduction

Market transformation (“MT”) programs present a formalized approach to encourage the adoption of specific energy efficient technologies within a pre-determined customer segment. As defined by the Ontario Energy Board (the “Board”),

“Market transformation programs are those that (a) seek to make a permanent change in the market for a particular measure, (b) are not necessarily measured by number of participants, and (c) have a long term horizon.”¹

MT activities, with regards to the adoption of energy efficient technology, are frequently slowed by a variety of barriers found in the market place. Through utility intervention, these obstacles can be removed, and accelerated adoption of the energy efficient technology will occur.

Union’s MT plan is applicable to residential, commercial and industrial programming, according to identified opportunities. For 2010, Union’s MT plan will continue to focus on the Drain Water Heat Recovery (DWHR) program in the new build residential market.

Drain Water Heat Recovery (DWHR)

In 2007, Union Gas launched its first market transformation program entitled Drain Water Heat Recovery. The technology works by allowing cold incoming water in a home to be pre-heated by outgoing grey water, before going into a gas water heater or storage device. The device reduces the amount of energy needed to heat incoming cold water and provides the homeowner with savings on their energy bills.

Union uses a Direct-to-Builder approach focused on providing education, training and incentives to influence builders in the marketplace and reduce market barriers that would otherwise prevent the adoption of DWHR.

Marketing support used to reduce barriers and provide education to increase customer and builder awareness includes: (a) presence at trade/home shows; (b) editorials and advertisements in trade publications/magazines; (c) co-branded marketing communication material; (d) direct mail; (e) brochures; (f) dedicated builder sessions; (g) post-installation visits to educate customers on the technology’s benefits; and (h) a dedicated customer/builder program website.

The program is currently in its third year of operation, with marketing support and incentives intended to continue throughout 2010.

Objective

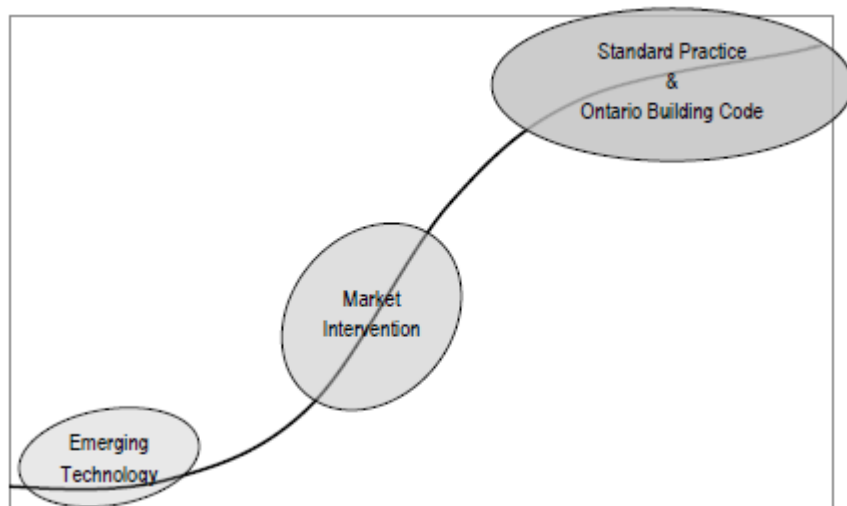
Adopting the Board’s definition of MT, the long term goal of the DWHR program is to affect a permanent change in Ontario’s Residential New Construction segment such that DWHR unit installations are a standard industry practice.

With Union’s long term goal in mind, Union has set short term goals to guide our activity in the Residential Builders market in Union’s franchise area. Meeting or exceeding the market transformation

¹ Decision with Reasons. Ontario Energy Board Act 1998, S.O.1998, c.15 (Schedule B). August 25th, 2006, page 18.

scorecard target of 100% in all elements outlined in the scorecard for 2010 comprises the program's short term goals. To ensure market persistence of DWHR installations, the ultimate objective of the DWHR initiative in the Ontario marketplace is to have it included in the Ontario Building Code.

Figure 1: Market Transformation over Time



Union has agreed to work with the EAC to better define Market Transformation in terms of key objectives, timelines, and demonstrated response by the marketplace by the end of June, 2010.

Strategy

- Influence builders to participate in the program
- Work with 3rd party organizations to increase builder/customer knowledge and awareness
- Increase manufacturing presence within the province

Plan

To date, Union has experienced success in getting large scale production builders, with a focus on energy conservation, to adopt the DWHR program. Union will build on this success by continuing to offer the current program to participating builders, with an increased focus on broadening the base to include smaller tier 2 and 3 builders.

Marketing support will focus on targeting and educating new build customers about DWHR, in an effort to increase customer demand for the technology before the purchase of a home takes place. As customer demand increases, builders will be more likely to install DWHR units in their homes, thereby causing market penetration to increase.

Fourteen percent of Union's MT budget has been allocated to the Low-Income segment. Union will continue to work with regional Social Housing Corporations to bring them the benefits of DWHR installations. Since the rate of new Social Housing and Low-Income residential construction is lower than the overall market, the focus of the low-income portion of the DWHR program is to retrofit existing homes when pipe configuration allows. These retrofit installations are not counted in the Incentive Scorecard.

Incentive Scorecard

Union can earn a maximum annual incentive of \$0.5 million for market transformation activities.

A market transformation program can use a number of metrics to determine an appropriate incentive for program execution and performance, and may include:

- Ultimate outcomes (e.g. market penetration vs. baseline, product sales)
- Indicators of market effects (e.g. indicators of lasting market effects and/or reductions in market barriers)
- Effective and efficient performance of planned activities
- A decline in the per unit cost of the equipment

Union will use a balanced scorecard approach to evaluate program effectiveness and eligibility for an incentive payment. The scorecard for 2010 is outlined in Table 1 below. The scorecard multiplier will be applied to the eligible incentive amount to determine the actual incentive earned for each program.

Table 1: 2010 Market Transformation Scorecard

Element	Metrics (weighting)	Metric Value Levels			Score
		50%	100%	150%	
DRAIN WATER HEAT RECOVERY					
ULTIMATE OUTCOMES	Participating Builders	2009 Actual +5%	2009 Actual +10%	2009 Actual +15%	/20
	Units Installed (new build) as a percentage of 2010 housing starts	2009 Actual +1%	2009 Actual +3%	2009 Actual +5%	/80

Table 2: Participating Builders / Total Builders

Year	Number of Builders*	Builders Enrolled	% Builders Enrolled	% Increase
2007	500	20	4%	n/a
2008	500	51	10%	155%
2009 F	500	100	20%	96%
2010 (100%)	500	110	22%	10%

*Approximate number of builders in Union franchise area.

** The number of builders is not necessarily the same each year; to date in 2009, there are 265 builders actively building houses in Union's franchise area.

Table 3: Units Installed / Housing Starts

Year	Housing Starts	DWHR Installs	% Housing Starts with DWHR Installs	% Increase
2007	18,728	906	4.8%	n/a
2008	18,428	1,575	8.5%	77%
2009 F	13,000	1,599	12.3%	44%
2010 (100%)	13,144	2,011	15.3%	24%

Metrics Description:

- a) Participating Builders – The number of builders participating in the market transformation program. Eligible builders must install a DWHR technology in at least one of their homes. The 100% target for this metric in 2010 is an increase of 10% above the forecasted 2009 scorecard result.
- b) Units Installed (New Build) – The number of units installed as a result of the market transformation program. The 100% target for this metric in 2010 is the installation of a DWHR unit in 3% more new build homes than the forecasted 2009 scorecard result. All installations must be completed in a home built within Union’s franchise area between January 1, 2010 and December 31, 2010 (Includes detached, semi-detached and row/town houses).

Budget

Union’s 2010 budget for market transformation is \$1.331 million in 2010, which will be allocated as shown in Table 2 below. While fourteen percent of the budget has been allocated to low income, we expect that installations in this segment will be predominantly retrofit and as such will not count towards the incentive scorecard.

Table 4: 2010 Market Transformation Budget

DWHR 2010	
Estimate New Build Incentive	\$400
Total Units Installed	2,100
Total Cost (Incentives)	\$840,000
Marketing Materials	\$80,000
Builder Training Sessions & Workshops	\$80,000
Customer Awareness Campaign	\$40,000
Home Shows/Builder Events	\$70,000
Year End Audit/Outreach (on 5% of installs)	\$35,000
Low Income (14%)*	\$186,000
TOTAL BUDGET	\$1,331,000

* Low income installations have been predominantly retrofit and as such do not count towards the scorecard.