VERIDIAN
CONNECTIONS

55 Taunton Road East
Ajax, ON L1T 3V3
TEL (905) 427-9870
TEL 1-888-445-2881
FAX (905) 619-0210
www.veridian.on.ca

June 13, 2011

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Dear Ms. Walli

Re: Addendum to Veridian's Conservation and Demand Management Strategy
Board File # EB-2010-0215

Veridian Connections Inc. ("Veridian") is pleased to submit the enclosed addendum to its 2011 to 2014 Conservation and Demand Management ("CDM") Strategy in accordance with the Ontario Energy Board's (the "Board") November 23rd, 2010 letter to Veridian and section 2.1 of the Board's CDM Code for Electricity Distributors.

We trust that this addendum to Veridian's CDM Strategy meets the Board's requirements. However, should clarification be required on any of its contents, please do not hesitate to contact me by phone at 905-427-9870, ext. 2202 or by email at garmstrong@veridian.on.ca.

Yours truly,

Original signed by

George Armstrong, C.E.T., B.A.S.
Manager of Regulatory Affairs and Key Projects

Addendum to Veridian Connections Inc.'s Conservation and Demand Management Strategy

1. Background

Veridian Connections Inc. ("Veridian") filed its CDM Strategy with the Ontario Energy Board (the "Board") on November 1, 2010 in accordance with section 2.1 of the CDM Code for Electricity Distributors. The strategy filing included all mandatory information stipulated by the Code, where available.

On November 12, 2010, the Board issued a Decision and Order establishing mandatory CDM targets for licensed electricity distributors (EB-2010-0215/EB-2010-0216). The final targets assigned to Veridian differed slightly from the preliminary targets provided in Veridian's CDM Strategy. Veridian's preliminary targets were 29 MW of demand and 117 GWh of energy savings. The final targets are 29.05 MW of demand and 115.74 GWh of energy savings.

On November 23, 2010, the Board issued a letter to Veridian providing notice that its CDM Strategy was deemed incomplete due to the absence of prospective budgets for planned OPA-Contracted Province-Wide CDM Programs and Board-Approved Programs. The letter directed Veridian to file an addendum to its CDM Strategy providing an estimate of such budgets, using a methodology of its choice. Further, the letter directed that the addendum be filed no later than 21 days after the finalization of the OPA's funding formula.

On May 20, 2011, the Board issued a letter to all electricity distributors advising that the OPA's funding formula for Province-Wide CDM Programs had been finalized (with the exception of its low-income program), and that all required CDM Strategy addendums were to be filed by no later than June 13, 2011.

This addendum to Veridian's November 1st 2010 CDM Strategy provides the prospective budget information required by the Board's November 23, 2010 letter.

2. Budget Estimation Methodology

As stated in its letter dated November 23, 2010, the Board has directed distributors to develop estimated, prospective budgets using a methodology of their choice. Veridian has chosen to develop its budget data using an avoided cost approach. This methodology was used by Chatham-Kent Hydro in its January 26th 2011 strategy filing, and it was subsequently accepted by the Board.

Full details of this budget estimation methodology are provided in Appendix A.

3. Budget Scenarios

Veridian's November 1st 2010 CDM Strategy observes an outstanding issue related to the identification and treatment of the CDM impacts of smart meters and time-of-use rates. Specifically, the strategy identifies that approximately 23% of Veridian's demand reduction target relates to the OPA's estimate of savings attributable to the implementation of smart meters and time-of-use rates.

It was and continues to be Veridian's expectation that an assessment of time-of-use rate impacts will be carried out on a generic, province-wide basis, for the purpose of determining the contribution of this new rate structure to each distributor's mandatory CDM targets. However, if this was not to occur, Veridian would likely need to expand its use of Board-Approved CDM programs to address the projected shortfall in demand reduction savings.

Given the continuing uncertainty regarding the identification and treatment of time-of-use rate related CDM impacts, Veridian has developed two prospective budget scenarios, as follows:

> Scenario 1:
> CDM impacts of TOU rates recognized on the basis of OPA projections, and credited to distributor CDM targets.
>
> Scenario 2:
> Distributor CDM targets not credited with TOU rate impacts

Both budget scenarios ignore the OPA's low-income program. At the time of filing this addendum, the OPA has not provided Veridian with the information needed to estimate the demand and energy savings contributions of this particular program.

4. Prospective Budgets

Scenario 1 – TOU CDM savings credited to Veridian (based on OPA projections)

Program	Program total
OPA Industrial Program	$ 2,102,000
OPA Business Program	$ 13,806,000
OPA Consumer Program	$ 6,551,000
OPA Low-income Program	N/A
OPA Program subtotal	**$ 22,459,000**
Board-Approved Programs	$ 3,356,000
Portfolio total	**$ 25,815,000**

Scenario 2 – CDM TOU savings not credited to Veridian

Program	**Program total**
OPA Industrial Program	$ 2,102,000
OPA Business Program	$ 13,806,000
OPA Consumer Program	$ 6,551,000
OPA Low-income Program	N/A
OPA Program subtotal	**$ 22,459,000**
Board-Approved Programs	$ 7,963,000
Portfolio total	**$ 30,422,000**

5. 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 Veridian. Those final numbers may be higher or lower depending on such factors as:

- The specific technologies and measures implemented;
- The details of the program designs, and the costs of delivering the programs;
- The ability to meet "typical" costs in the Veridian's service area; and
- The possible need for the programs to exceed energy targets in order to meet demand targets (or vice versa).

Avoided Cost Budget Estimation Methodology

Step 1: Estimate Avoided Costs

The OPA has provided a Resource Tool that is essentially a large set of interlinked spreadsheets that show each of the measures it intends to use in its programs (and other measures), the estimated market penetration of each of these in the province through OPA programs, and technical information about each measure including its cost, lifetime, load profile, energy and demand savings, and default free ridership rates. The spreadsheets also include avoided costs over multiple years into the future for energy generation, generation capacity, transmission and distribution. From this data, it is possible to calculate the net energy savings or peak demand reductions, and the value of these savings and reductions. This value represents the upper limit on potential program costs and incentive costs if the programs are to pass the Program Administrator Cost (PAC) test, since program overhead costs plus incentive cost must be less than the avoided costs.

Step 2: Estimate the Size of the Program Budgets for the OPA Programs

CDM programs bring benefits not captured in the benefits that are part of the tests the OEB has adopted. These un-captured benefits may include environmental benefits, increased comfort or quality of the energy service, for example. However, the focus of the OEB's mandated tests is the financial benefits.

If the programs are to meet the PAC test, then the program overhead costs plus the incentive costs must be less than the avoided costs. The ratio of program and incentive costs to avoided costs is a measure of the PAC benefits of the program. As a starting point, program and incentive costs are assumed to be 60% of avoided costs. This number is revisited in step 5.

Step 3: Determine the Split between OPA and LDC Costs

For OPA programs, some of the total program costs will be borne by the OPA, and some by the LDC. This varies by program, but in its strategy report, Hydro One Brampton reports on this split by major program type or sector, as follows:

- Consumer programs: 60% LDC, 40% OPA
- Business programs: 80% LDC, 20% OPA
- Industrial programs: 80% LDC, 20% OPA

In the absence of any better information, these estimates were adopted. Using the total program budgets estimated in step 2 and the above splits, the total LDC budget for each OPA program is calculated.

Step 4: Estimate Budget Requirements for Board-Approved Programs

Sixty percent of the avoided costs of all OPA programs and the demand and energy reductions of all OPA programs were used to generate generic demand and energy unit costs ($/MW and $/kWh, respectively). These unit costs were considered to be indicative of the unit costs of a "standard" CDM program. The Board-Approved budget was based on the required Board-Approved Program energy and demand savings as well as these calculated standard unit costs, giving equal weighting to the unit costs needed for demand and for energy reductions. A final scaling factor is included to account for the deeper measures required achieving these savings in Veridian's service territory – further detail on the reasoning for this is provided below.

Step 5: Adjust Program Costs

Finally, the program benefit factor is adjusted based on judgment. For example, the implied benefit factor associated with the budgets estimated by Toronto Hydro, Hydro One, Hydro One Brampton and Enersource were calculated. These suggested a program benefit factor of between 43% (Enersource) and 55% (Toronto Hydro). Consideration was given to whether costs in Veridian's service area would be comparable, higher or lower than costs faced by these LDCs.

For example, Veridian is a smaller utility than those previously mentioned, its overhead costs are distributed over a smaller number of participants in the programs, and it is less urban. For these reasons, the program benefit factor was suitably adjusted. It was further adjusted through consideration of past experience of Veridian with CDM. After considering all these factors, a program benefit factor of 60% was assumed for the Board-Approved Programs.