



Ontario Energy Board

**Review of 2005 Conservation and Demand Management
Annual Reports
Office of the Chief Regulatory Auditor**

May 17, 2007



Ontario Energy Board

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Context of Review

This review was conducted by the Chief Regulatory Auditor of the Ontario Energy Board (the “Board”) further to filings made by electricity distributors in accordance with orders issued by the Board. No statutory power of decision has been delegated to the Chief Regulatory Auditor. The findings in this report represent the views of the Chief Regulatory Auditor and are not binding on the Board.

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Background

In 2005, the Board gave its approval to electricity distributors to recover the third installment of market adjusted revenue requirement (MARR)¹ to invest an equivalent amount in conservation and demand management (CDM) activities. A total spending of approximately \$163 million was approved by the Board. Most of the distributors planned on investing the approved amount over a three year period ending September 30, 2007. The annual reports filed with the Board indicate that approximately \$36 million was spent by distributors on CDM initiatives as of December 31, 2005 (a summary of the key reported statistics is provided in a Schedule at the end of this report)².

The Board orders approving MARR-based CDM funding required the distributors to file quarterly and annual reports on the progress of the initiatives in their proposed CDM Plans, and stated that the annual reports would be subject to public review. The 2005 annual reports were to be filed with the Board by March 31, 2006, and reports received by the Board have been posted on the Board's website.

The "Guideline for Annual Reporting of CDM Initiatives" issued by the Board in December, 2005 required distributors to file an annual report including a cost benefit analysis.

¹ In 2002, distributors were permitted to file for rate increases that included a market based rate of return (MBRR) of 9.88% on their equity. MBRR was to be phased in over three installments. On November, 11 2002, due to passage of Bill 210, rates were fixed at the levels existing at that time. In May, 2004, the government allowed electricity distributors to file for the third instalment of MARR, provided that they spent the money on CDM initiatives.

² 2005 was the first year for these programs. The rate of spending has increased significantly in 2006.

The specified format for the annual report included appendices for evaluation of the overall portfolio, and for reporting Total Resource Cost (TRC) results and expenditures related to each program in accordance with the Board's Total Resource Cost Guide (TRC Guide).

Objectives

The objectives of this review are to provide an assessment of whether:

- The CDM activities undertaken by distributors were in accordance with their respective approved CDM Plans; and,
- The CDM annual reports conform to the Board's regulatory requirements.

Scope

The scope of this review included the 2005 annual reporting by distributors of CDM spending approved under the 3rd tranche of MARR.

The scope of examination did not test the validity of claims of benefits achieved or the value for money associated with the projects, as most projects were in the initial rollout phase in 2005. However, the TRC calculations performed by the distributors were tested for conformance with the TRC Guide, and for mathematical accuracy.



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Approach

A sample of 2005 annual reports was selected for detailed review. This sample comprised about \$93 million of the total CDM spending approved by the Board, providing approximately 57% coverage of total Board approved 3rd tranche CDM plans and 62% of the funds reported as spent to date. As well, the sample was representative of distributors of various geographic regions and sizes (including distributors with small, medium and large customer bases).

The review was performed at an overall report level for the distributors in the sample. In addition, a sample of programs was reviewed in detail at the individual program level, including various cost-benefit calculations performed by the distributors.

Of the 76 CDM programs listed by the distributors in the sample, 31 programs were tested to ensure that the requirements of the TRC Guide were appropriately applied. Our review work included discussions with the distributors, and analysis of the annual reports, including the information underlying these reports.

The selected sample of programs represented a cross-section of program types, and included Low Income Programs and several Co-Branded Mass Market Programs.

Review Conclusions

We concluded that:

- The reported CDM activities undertaken by distributors were in accordance with their approved

CDM Plans and the relevant orders issued by the Board.

- The format and content presented in the CDM annual reports generally followed the Board-issued Guideline.
- Based on our review work and the sample tested, we note that spending as reported was materially correct and consistent with the 4th quarter report for 2005.
- While there were inconsistencies in the reporting of TRC information, and most of the distributors in our sample made some errors in calculating and reporting their TRC results, these errors were not material. Some errors appear to have been caused by a lack of understanding of, and familiarity with, the TRC Guide.

Summary of Findings

- We found that spending in 2005 (the first year for most programs) was less than what the distributors had anticipated. Distributors generally found that the programs have taken longer to establish than initially anticipated. The main contributing factors cited by distributors for the delay in rolling out these programs were the lack of staff resources and lack of availability of the appropriate technology. (Note: The rate of spending has increased significantly in 2006.)
- All of the distributors in the sample obtained the necessary Board approvals for transferring more than 20% of funding between programs. However, some distributors that made changes to their programs



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(e.g., implemented new programs not included in their initial plan) involving funding transfers of 20% or less did not clearly identify in their annual reports that these programs were modifications to their initial plan.

- Some distributors appeared to be unfamiliar with the intricacies of the TRC Guide and reported information on TRC performance that was inconsistent with the Guide's requirements. While the amounts involved were not material, some of the annual reports do not reflect adherence to the details of the TRC calculations, e.g., using base costs as well as incremental costs, not allocating indirect costs to programs, and other minor calculation errors.
- A few of the distributors did not provide supplementary information to justify using techniques and data different from those prescribed in the TRC Guide.
- A general theme that arose during the review of the selected sample of annual reports was that it was too early for the benefits of the programs to be properly assessed by the distributors. Much of the work that was undertaken in 2005 related to program development. Many distributors expect that the measurability of the benefits associated with the CDM programs will improve and a more conclusive assessment of their CDM programs will be possible after they have been fully implemented in year 3.
- In a few instances, program costs were not adequately tracked by the distributor's accounting systems. For example, in one case, the employee

time spent on CDM activities was not properly tracked, resulting in a slight overstatement of net TRC benefits.

- Most distributors sampled indicated that they were not convinced that the value of the quarterly reports outweighs the level of effort involved in preparing them.

Subsequent Actions

In light of some of the initial findings arising from this review, the Board approved revisions to the reporting guidelines for 2006 to promote greater consistency in, and improve the quality of, the reporting of costs and benefits by distributors.

The Chief Regulatory Auditor is also recommending to the Board that the Board review the ongoing need for quarterly reporting and consider requiring reporting on an annual basis only. The Chief Regulatory Officer understands that the Board is taking this matter under advisement.

Acknowledgement

We thank the staff of the selected distributors for their co-operation during this review.



Review of 2005 CDM Annual Reports
Spending and Savings as reported by Distributors on MARR-funded CDM Programs
 (Note: The information in this table is taken from the Distributors' Annual Reports and has not been adjusted in any way by the Board)

LDC	\$ Approved 3rd Tranche	2005 Annual Report*		
		\$ Spent	kWh Saved	Peak Demand (kW) Saved
Atikokan Hydro Inc.	48,213	0	0	0
Aurora Hydro Connections Ltd	820,500	34,833	1,254	0
Barrie Hydro Distribution Inc.	1,907,855	601,534	1,717,155	288
Bluewater Power Distribution Corp.	657,500	362,528	59,639	13
Brant County Power Inc.	314,000	286,831	1,344,450	271
Brantford Power Inc.	1,340,000	1,340,000	1,158,760	160
Burlington Hydro Inc.	2,157,862	441,960	711,952	65
Cambridge and North Dumfries Hydro Inc.	2,161,652	805,677	2,009	37
Centre Wellington Hydro Ltd.	59,200	13,081	84,680	0
Chapleau Public Utilities Corp.	43,807	1,758	0	0
Chatham Kent Hydro Inc.	1,000,000	97,581	5,536,490	0
Clinton Power Corporation	23,978	0	0	0
Collus Power Corp	376,000	124,542	158,967	32
Cooperative Embrum Hydro Inc.	11,482	75,072	109,705	38
E.L.K. Energy Inc.	230,939	23,060	702	0
Enersource Hydro Mississauga	8,263,000	2,522,758	4,123,018	61
Enwin Powerlines Ltd	2,253,650	76,262	1,492,232	220
Erie Thames Powerlines	267,000	9,900	80,140	0
Essex Powerlines Corporation	696,081	308,462	3,074,595	591
Festival Hydro Inc.	660,343	229,276	1,152,177	85
Fort Frances Power Corporation	128,216	15,021	110,555	26
Grand Valley Energy Inc.	15,726	2,646	57,221	12
Gravenhurst Hydro Electric Inc. (Veridian)	178,000	11,103	0	0
Greater Sudbury Hydro Inc.	1,263,658	197,834	300,677	0
Grimsby Power Incorporated	221,750	44,655	144,376	38
Guelph Hydro Electric System Inc.	1,156,600	250,804	2,421,744	224
Haldimand County Hydro Inc.	437,478	163,311	243,054	88
Halton Hills Hydro Inc.	715,000	145,782	511,035	106



SCHEDULE – Key Reported Statistics

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LDC	\$ Approved 3rd Tranche	2005 Annual Report*		
		\$ Spent	kWh Saved	Peak Demand (kW) Saved
Hamilton Hydro Inc.	5,240,000	671,442	5,878,231	76
Hearst Power	70,000	0	0	0
Hydro 2000 Inc.	20,919	23,225	221,746	48
Hydro Hawkesbury Inc.	79,117	1,424	1,455	0
Hydro One Brampton Networks Inc.	3,236,000	579,741	678,840	51
Hydro One Networks Inc.	39,500,000	4,006,280	8,169,013	681
Hydro One Remote Communities	300,000	77,992	17,545	0
Hydro Ottawa Limited	9,278,000	2,115,699	6,869,291	370
Innisfil Hydro Distribution Systems Limited	191,000	34,059	79,460	1
Kenora Hydro Electricity Corp Ltd.	141,455	0	0	0
Kingston Electricity Distribution Limited	175,000	22,680	87,855	10
Kitchener-Wilmot Hydro Inc.	2,350,000	320,507	4,259,805	598
Lakefront Utilities Inc.	170,000	67,782	384,579	23
Lakeland Power Distribution Ltd	162,000	120,277	359,189	34
London Hydro Inc.	2,837,000	864,932	5,820,048	688
Middlesex Power Distribution Corporation	280,000	105,000	2,738	0
Midland Power Utility Corporation	234,433	72,371	725,654	179
Milton Hydro Distribution Inc.	1,064,000	568,591	42,770	26
Newmarket Hydro Limited	1,200,000	306,495	0	0
Niagara Falls Hydro Inc.	900,067	109,361	603,949	326
Niagara-on-the-Lake Hydro Inc.	188,440	171,721	207,311	115
Norfolk Power Distribution Inc.	581,000	482,436	2,524,710	1,347
North Bay Hydro Distribution Ltd.	1,278,000	224,298	889,970	308
Northern Ontario Wires	125,838	2,900	0	0
Oakville Hydro Electric Distribution Inc.	2,890,000	400,000	0	0
Orangeville Hydro Limited	290,000	27,556	0	0
Orillia Power Distribution Corporation	207,000	51,176	333,339	12
Oshawa PUC Networks Inc.	1,525,000	446,943	632,555	21



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		\$ Spent	kWh Saved	Peak Demand (kW) Saved
Ottawa River Power Corporation	295,500	31,997	126,937	8
Parry Sound Power Corporation	180,000	12,618	24,402	4
Peninsula West Utilities Limited	454,457	9,754	164,958	61
Peterborough Distribution Inc. (includes Asphodel-Norwood & Lakefield)	1,286,809	1,233,818	114,663	51
Port Colborne (CNP)	159,214	16,000	2,011	23
PowerStream Inc.	6,400,000	1,072,567	3,130,723	1,663
PUC Distribution Inc.	900,000	367,467	618,585	0
Renfrew Hydro Inc.	70,000	11,685	0	0
Rideau St. Lawrence Distribution Inc.	120,000	13,415	62,654	18
Sioux Lookout Hydro Inc.	43,447	0	0	0
St. Catharines Hydro Utility Services Inc.	1,830,854	252,945	586,136	25
St Thomas Energy Inc.	204,000	1,110	0	0
Tay Hydro Electric Distribution Company Inc.	59,000	34,829	19,183	59
Terrace Bay Superior Wires Inc.	46,400	4,808	67,775	0
Thunder Bay Hydro Electricity Distribution Inc.	694,106	346,516	988,800	120
Tilsonburg Hydro Inc	248,000	6,749	119,897	12
Toronto Hydro-Electric System Limited	39,754,000	13,429,726	91,609,218	12,765
Veridian Corporation (includes Scugog)	3,500,000	335,863	825,175	44
Wasaga Distribution Inc.	238,574	126,699	102,000	0
Waterloo North Hydro Inc.	1,205,000	33,000	70,620	10
Welland Hydro-Electric System Corp.	694,106	167,783	315,885	108
Wellington Electric Distribution Company Inc.	23,700	1,860	23,613	0
Wellington North Power Inc.	60,579	60,579	348,265	0
West Coast Huron Energy Inc	33,000	14,282	27,266	6
West Perth Inc.	27,580	0	0	0
Westario Power Inc.	656,500	129,926	178,825	0



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		\$ Spent	kWh Saved	Peak Demand (kW) Saved
Whitby Hydro Electric Corporation	1,300,000	23,536	14,093	4
Woodstock Hydro Services Inc.	420,000	37,375	122,200	8
	162,867,054	35,843,432**	140,444,954	18,309

* Zero indicates the amount reported was nil or Appendix A was not filed.

** 2005 was the first year for these programs. The rate of spending has increased significantly in 2006.