



June 9, 2004

John Livey, CAO
Town of Markham
101 Town Centre Boulevard,
Markham, Ontario
L3R 9W3

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Hon. David Crombie
President and CEO

Re: Developing the Markham Energy Conservation Office

Dear John:

Further to our conversation yesterday afternoon with you, Victoria McGrath and Bruce Ander, the Canadian Urban Institute (the "CUI") is pleased to provide advisory services to the Town of Markham on two matters associated with the development of the Markham Energy Conservation Office (the "Office").

First, on behalf of the Town, the CUI will work with Amalco to establish as soon as possible a deferral account in accordance with the May 31 letter from Energy Minister Dwight Duncan to Markham Hydro Distribution Inc. An application must be made to the Ontario Energy Board by Amalco to establish the creation of a deferral account within which to track expenditures on energy conservation and demand side management. Once this deferral account is set up, Amalco will have the resources to fund initiatives like the Office, and proceed to earn its full commercial rate of return on behalf of its shareholders. Additional details on the May 31 letter and the creation of the deferral account are attached in Appendix A.

Second, the CUI will work with the Town of Markham, Amalco and Markham District Energy Inc. to prepare a formal submission to the Committee of the Whole on June 22 authorizing the creation of the Office. The submission will also seek approval to pay the CUI for developing the Office concept, preparing the Office's formal business plan, and assisting with the launch of the Office in the fall of 2004. Tasks to be performed by the CUI in connection with the submission to the COW include:

- Preparing background documentation on the purpose of the Office and how it will achieve its aims.
- Providing an overview of the major issues involved in establishing the Office and its ability to access funds from Amalco's deferral account and other sources of funding.
- Providing an overview of the role of the CUI in preparing the formal business plan and assisting with the fall 2004 launch.
- Preparing the presentation to be made to the COW by the appropriate deadlines.
- Attending at the COW with staff to support the submission.

The CUI has already begun to work on this assignment. The amount of time to complete both aspects of this initial advisory assignment will be 15 days at a per diem rate of \$1000 for a total of \$15,000, exclusive of GST, and any pre-approved expenses. The primary consultant on this assignment will be myself, James Small, Senior Associate, Canadian Urban Institute. I will notify you in advance if this assignment exceeds this minimum allotment and by how much.



Thank you for agreeing to work with the CUI on this assignment. If you wish to discuss any of the above in more detail, please contact me directly at 416-920-0384.

Yours truly,

James M. Small, Senior Associate
Canadian Urban Institute

cc. Bruce Ander, President, Markham District Energy Inc.
Glenn Miller, Vice President Education and Research, CUI



Appendix A

In a letter dated May 31 to Milan Bolkovic, President, Markham Hydro Distribution Inc., Energy Minister Dwight Duncan states that he is authorizing local distribution companies to proceed to the Ontario Energy Board with “an application to establish a deferral account . . . within which to track expenditures on conservation and demand side management.” The Minister goes on to encourage Markham Hydro, and all other LDCs in Ontario, to pursue a “broad range of programs that support the more efficient use of electricity in Ontario.” Finally, in order to expedite “short term actions”, the Minister fully expects LDCs to “require some assurance with respect to conservation proposals that would be considered for the purposes of cost recovery.” The Minister then lists six “specific measures” that should be supported by the OEB. These are:

1. Energy efficiency;
2. Behavioural and operational changes;
3. Load management measures;
4. Fuel switching;
5. Programs for low income and hard to reach customers; and
6. Distributed energy options.

The prudence of the actual expenditures will be scrutinized by the OEB. However, the funds within the deferral account can be used to “lever incremental investments through partnerships with governments.” Proposals that “leverage, and thereby maximize, the financial investments of the LDCs” will be given priority.

The establishment of the deferral account by Amalco to track expenditures on conservation and demand management is linked directly to the creation of the proposed Energy Conservation Office for the Town of Markham. Through the deferral account, Amalco has the ability to finance certain projects that fulfill the goals outlined in the Minister’s letter. At this time, there is no other source of funding available from the provincial order of government in support of demand management and conservation measures. As well, Amalco has no specific or immediate plans to meet the terms outlined in the Minister’s letter. If Amalco does not pursue or support the measures outlined above, then it will not be able to earn its full commercial rate of return. Accordingly, the Town of Markham should ensure that Amalco apply to the OEB to establish the deferral account as soon as possible. The result will be a source of funding for the proposed Markham Energy Conservation Office, and a removal of the primary barrier for Amalco to begin earning its full commercial rate of return.