

August 6, 2014

BY EMAIL & COURIER

Ms. Kirsten Walli
Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, Ontario M4P 1E4

Dear Ms. Walli:

Re: EB-2014-0134: A New Demand Side Management (DSM) Framework for Natural Gas Distributors

At the July 25, 2014 meeting of the DSM Working Group, Board Staff outlined their proposed recommendations with respect to the key features of the OEB's new DSM Framework for Natural Gas Distributors. Environmental Defence has serious concerns with respect to the Board Staff's recommendations. We are writing to detail these concerns and to request that you bring these concerns to the attention of the Board.

Background

On March 26, 2014 Energy Minister Chiarelli directed the Ontario Energy Board (OEB) to establish a DSM Framework for Ontario's natural gas distributors. The Minister specifically directed that this Framework "shall enable the achievement of all cost-effective DSM".

Based on the Minister's clear direction, it is Environmental Defence's submission that the new DSM Framework should:

1. Enable the achievement of all cost-effective DSM, as rapidly as practically possible, subject only to the constraint that the gas utilities' DSM budgets must not lead to undue rate increases. This means that DSM spending should match or exceed comparable levels in jurisdictions with similar climate, not be capped or marginally increased;
2. Re-affirm the OEB's 1993 decision that Ontario's gas utilities should use the Societal Cost Test (rather than the Total Resource Cost Test) to evaluate the cost-effectiveness of their DSM programs, i.e., take into account the cost of greenhouse gas emissions; and
3. Direct Enbridge and Union Gas to implement smart pricing options, commencing January 1, 2016, to help enable the achievement of all cost-effective DSM at the lowest possible cost to customers.

Concerns with the Board Staff's Recommendations and Environmental Defence's Proposed Solutions

1. The DSM Budget Should not be Arbitrarily Capped

According to Board Staff, they are proposing to recommend that the Board cap the DSM program budgets of each of Enbridge and Union Gas at approximately \$33 million per year in 2015 (the status quo level). Furthermore, Board Staff is proposing to recommend that the DSM program budgets of each of these two major gas utilities be capped at approximately \$53 million per year from 2016 to 2020 inclusive.

Environmental Defence believes that these proposed *arbitrary* DSM budget caps are inappropriate and contrary to the public interest. There is simply *no evidence* to indicate that these arbitrary budget caps will assist with achieving Minister Chiarelli's March 26, 2014 DSM Directive to the OEB. To the contrary, there is significant evidence to indicate that these budget caps will prevent the "achievement of all cost-effective DSM" in Ontario. Indeed, it appears that proposed arbitrary budget caps are directly contrary to the Minister's Directive to the OEB.

For example, the total DSM spending, per cubic metre of gas sales, in two cold climate jurisdictions that are required to pursue all cost-effective gas efficiency resources, is substantially higher than that of Ontario's gas utilities. Specifically, Rhode Island's and Massachusetts' DSM spending, per cubic metre of gas sales, is 12 times and 14 times greater respectively than that of Union Gas.¹

If Ontario's DSM spending, per cubic metre of gas sales, were to match that of Massachusetts, then the combined annual DSM budgets of Ontario's two gas utilities would be \$785 million,² not a maximum of \$106 million (\$53 million x 2) as proposed by Board Staff.

Another relevant benchmark is Ontario's electric conservation and demand management (CDM) budget. Ontario's electric CDM budget is \$400 million per year for an energy source that supplies just 19% of our energy needs; whereas natural gas provides Ontario with 35% of its energy needs.³ That is, natural gas provides us with 1.84 times more energy than electricity. Therefore, on an energy-equivalent basis, Ontario's gas DSM budget should be \$736 million per year (\$400 million x 1.84).

In this context it is also important to remember that Ontario's natural gas-related greenhouse gas (GHG) emissions are much greater than those of our electricity sector. Therefore, on a GHG-equivalent basis, Ontario's gas DSM budget should be much larger than \$736 million per year.

In sum, even if a DSM budget cap were appropriate (Environmental Defence does not believe that it is), the proposed DSM budget cap numbers are far too low when compared with other cold climate jurisdictions or with similar demand management budgets in the electricity sector. The arbitrary and extremely low proposed DSM budget caps for the DSM Framework will make it practically impossible for the Board to achieve all cost-effective DSM programs.

¹ Toronto Atmospheric Fund, *Establishing a Conservation-First Policy for Ontario's Natural Gas Utilities*, (July 30, 2014), page 10.

² Toronto Atmospheric Fund, *Establishing a Conservation-First Policy for Ontario's Natural Gas Utilities*, (July 30, 2014), page 10.

³ Ontario Power Authority, *Conservation First Framework Update: Presentation to SAC*, (June 24, 2014), page 7; and Environmental Commissioner of Ontario, *Restoring Balance – Results: Annual Energy Conservation Progress Report – 2011 (Volume Two)*, page 58.

A Better Solution: Enable the Achievement of all Cost-Effective DSM

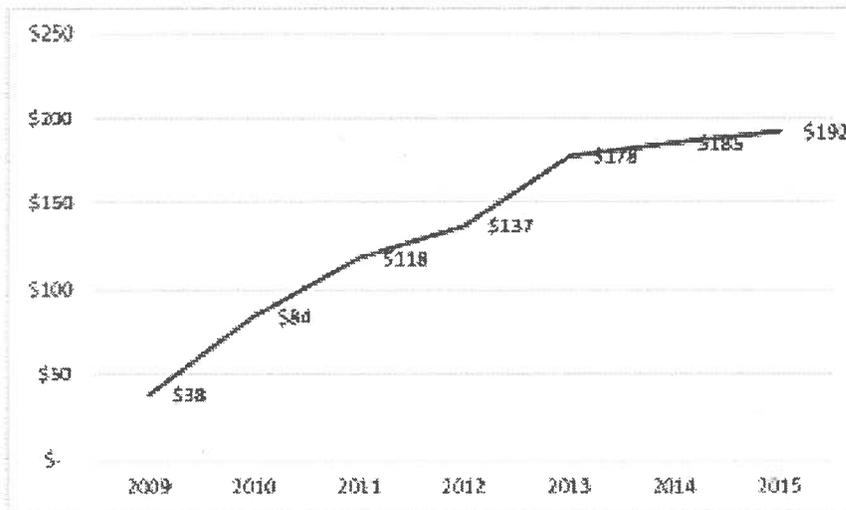
Instead of establishing *arbitrary* budget caps, the OEB should establish a DSM Framework which will enable the achievement of all cost-effective DSM, as rapidly as practically possible, subject to the constraint that the gas utilities' DSM budgets must not lead to undue rate increases.

Our proposal is identical to the budget cap rule that was established by the OEB, under the leadership of its then Chair, Marie Rounding, in its initial E.B.O. 169-III DSM Policy Framework in 1993.⁴

Furthermore, on page 41 of its landmark E.B.O. 169-III *Report*, the Board listed eleven questions that should be asked to determine if the utilities' DSM budgets and rate impacts are reasonable. That is, the Board recognized that the appropriate DSM budgets and rate impacts should not be *arbitrarily* determined in isolation of an assessment of the benefits of the proposed DSM programs. This is due to the fact that the appropriate DSM budgets and rate increases will be proportional to the net benefits of the DSM programs. For example, the greater are the bill reductions, the greater is the appropriate DSM budget and rate increase. Similarly, the greater are the avoided costs (e.g., upstream commodity and transportation costs, local supply-side infrastructure) and hence avoided supply-side rate increases, the greater is the appropriate DSM budget and rate increase. In addition, the greater are the number of DSM participants, the greater is the acceptable budget and rate increase.

The Massachusetts experience demonstrates that gas DSM budgets can be ramped up quickly in an efficient and effective manner. As Figure 1 shows, gas DSM spending rose from only \$38 million in 2009 to \$192 million in 2015. That is, a five-fold increase in six years.⁵

Figure 1: Massachusetts Gas DSM Budgets, 2009 to 2015 (millions of nominal dollars)



⁴ Ontario Energy Board, *E.B.O. 169-III Report of the Board*, (July 23, 1993), pages 22-25 and 32-41.

⁵ Toronto Atmospheric Fund, *Establishing a Conservation-First Policy for Ontario's Natural Gas Utilities*, (July 30, 2014), pages 11 and 12.

2. The Cost-Effectiveness of the DSM Programs should be measured using the Societal Cost Test rather than the Total Resource Cost Test

There are two alternative tests to measure the cost-effectiveness of DSM programs, namely, the Societal Cost Test (SCT) and the Total Resource Cost (TRC) Test. These two tests are identical except for the fact that the SCT includes external costs such as the cost of greenhouse gas (GHG) emissions (whereas the TRC Test does not).

In its E.B.O. 169-III *Report* the Board directed the gas utilities to use the SCT to evaluate the cost-effectiveness of their DSM programs:

“The Board is of the view that the SCT provides a comprehensive approach to measuring the overall net benefit to society of a particular DSM program...

The Board recognizes that the use of natural gas can contribute to environmental problems and that this cost is not fully captured in the price of natural gas... In particular, special attention was paid to the contribution of natural gas to the greenhouse effect. In the Board’s opinion, it is appropriate to consider environmental costs. The Board believes that the SCT is an effective way of addressing these concerns.”⁶

Nevertheless, Board Staff is now proposing that the Board should take a step backwards by mandating the gas utilities to use the TRC Test, not the SCT, to measure the cost-effectiveness of their DSM programs. That is, Board Staff wishes our gas utilities to ignore the GHG reduction benefits of energy conservation and efficiency programs when evaluating their cost-effectiveness.

This proposal by Board Staff is inappropriate for the following reasons.

First, it is inconsistent with Government policy. The Government of Ontario has adopted a policy of very aggressive GHG reduction targets. Specifically, the Government’s policy is for a 15% reduction in GHG emissions by 2020 and an 80% reduction by 2050.

Second, section 2 of the *Ontario Energy Board Act (Act)* requires the Board to “promote energy conservation and energy efficiency in accordance with the policies of the Government of Ontario...”⁷

Third, since natural gas consumption is responsible for approximately 30% of Ontario’s GHG emissions, natural gas DSM programs can make a very important contribution towards the achievement of these targets. For example, reducing natural gas consumption by just 1% per year starting in 2015 would lower Ontario’s 2020 GHG emissions by 2.4 megatonnes and achieve about 15% of Ontario’s 2020 GHG reduction target.⁸

A Better Solution: Re-affirm the Board’s 1993 Decision to use SCT to Evaluate the Cost-Effectiveness of DSM Programs

The Board should re-affirm its E.B.O. 169-III (1993) decision that Ontario’s gas utilities should use the Societal Cost Test to evaluate the cost-effectiveness of their DSM programs. Using SCT will allow the

⁶ E.B.O. 169-III *Report of the Board*, pages 34 & 35.

⁷ *Ontario Energy Board Act, 1998*, S.O. 1998, Chapter. 15, Schedule. B [emphasis added].

⁸ Toronto Atmospheric Fund, *Establishing a Conservation-First Policy for Ontario’s Natural Gas Utilities*, (July 30, 2014), pages 5 and 57.

Board to track and contribute to a reduction in GHG emissions, which is consistent with the Government of Ontario's aggressive GHG reduction policy (a policy that the Board is required to follow under the *Act*). The Government of Ontario has decided that now is the time to aggressively pursue GHG emissions. It is not the time to step backwards in the continuing fight against climate change.

3. Smart Prices Should be Implemented as Part of the DSM Framework

It appears that Board Staff are not proposing to recommend that the Board implement smart prices.

In Environmental Defence's view, this is inappropriate because Smart Prices are the lowest cost option to promote energy conservation and efficiency. In other words, Smart Prices will enable the achievement of all cost-effective DSM at the lowest possible cost to consumers.

For example, higher rates in the winter, offset by lower rates in the summer, will reduce the need for new, high-cost supply-side infrastructure to meet the peak demand for natural gas on cold winter days. In addition, higher volumetric charges, offset by lower fixed monthly charges, will increase consumers' incentive to conserve energy throughout the year.

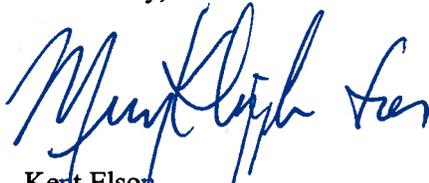
A Better Solution: Implement Smart Pricing Options

The Board's new DSM Policy Framework should direct Enbridge and Union Gas to implement smart pricing options, commencing on January 1, 2016, to enable the achievement of all cost-effective DSM at the lowest possible cost to consumers.

Conclusion

In Environmental Defence's view, its above proposals and recommendations (the "Better Solutions" as compared to the proposals recommended by Board Staff) will best position the Board to "achieve all cost-effective DSM" and comply with the Government of Ontario's aggressive GHG reduction policy.

Yours truly,



Kent Elson
Counsel for Environmental Defence