

October 15, 2014

BY COURIER AND RESS

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

Dear Ms. Walli:

**Re: Environmental Defence Submissions on the Draft Report of the Board and Draft Filing Guidelines with respect to the Demand Side Management Framework for Natural Gas Distributors
Board File No. EB-2014-0134**

I am writing to provide the Ontario Energy Board with Environmental Defence's submissions regarding the Draft Report of the Board and the Draft Filing Guidelines with respect to the Demand Side Management (DSM) Framework for Natural Gas Distributors (the "Draft Report" and "Draft Guidelines").

Overview & Summary

Environmental Defence's primary concern relates to certain critical parts of the Draft Report and Draft Guidelines that are *not* consistent with the Minister of Energy's legally binding directive that the Board establish a DSM Framework that "shall enable the achievement of all cost-effective DSM" (the "Directive"). The current Draft Report and Draft Guidelines – and particularly the Board's proposed targets and budgets – would fall far short of enabling the achievement of all cost-effective DSM.

This would not only be contrary to the Minister's Directive; it would also be a massive lost opportunity for Ontario. Conservation measures are "cost-effective" if the benefits outweigh the costs (e.g. the savings from less gas use outweigh the additional cost of a more efficient furnace). Because consumers save money by using less gas, DSM programs lead to *lower* gas bills on average, even after the DSM program costs are accounted for. The potential net benefits from conservation are huge. For example, the DSM programs of Union Gas alone generated *over \$1 billion* in net benefits from 1997 to 2008.¹ Even more benefits are available across the province if all cost-effective DSM is achieved.

¹ Marbek Resource Consultants, *2008 Natural Gas Energy Efficiency Potential Study with 2011 Summary Report Update*, Submitted to Union Gas Ltd, July 2011, p. 7 (EB-2011-0327, Exhibit A-1-K).

Environmental Defence submits that a number of changes are necessary to ensure that the DSM Framework complies with the Minister's Directive to enable the achievement of all cost-effective DSM. These changes are summarized below:

1. **Make Goals Consistent with the Directive (s. 1):** The DSM Framework should list "the achievement of all cost-effective DSM" as the primary purpose and goal. This should not be qualified by the phrase as "as far as is reasonable and appropriate" as this vague and unclear qualifier would be inconsistent with the Minister's binding Directive and seems to indicate that there is cost-effective DSM that is somehow unreasonable and inappropriate.
2. **Set Budgets & Targets in Hearings based on Utility Applications (s. 4 & 5):** The DSM budgets and targets should be proposed by the natural gas utilities with the input of stakeholders. The budgets and targets should ultimately be set through board hearings based on the evidence – not pre-determined in the DSM Framework itself.
3. **Study DSM Potential As Soon As Possible (s. 4 & 5):** The utilities should undertake new DSM potential studies as soon as possible so that the DSM plans and budgets can be based on the most up-to-date information and program types.
4. **Make DSM Plan Requirements Consistent with the Directive (s. 4 & 5):** The natural gas utilities should be explicitly directed to propose DSM budgets and targets that will "enable the achievement of all cost-effective DSM."
5. **Include Large Volume Customers (s. 7):** The natural gas utilities should be directed to develop DSM programs for *all* customer sectors, including large volume customers.
6. **Account for GHG Emission Reductions and other Externalities (s. 8.2):** All benefits of DSM should be considered in assessing whether DSM programs are cost-effective and should be implemented. Most importantly, a dollar amount should be assigned to expected reductions in greenhouse gas ("GHG") emissions. These benefits should be considered as part of a "Societal Cost Test" used to screen DSM programs. If important benefits such as GHG reductions are not accounted for, the DSM framework will not enable the achievement of all cost-effective DSM.
7. **Quantify "Jobs and Growth" Benefits (s. 8):** Utilities should be encouraged to quantify the impact of their DSM programs on increased jobs, productivity, and economic growth.
8. **Shareholder Incentive (s. 6):** The shareholder incentive must be consistent with the Minister's Directive. That is, it must motivate the gas utilities to pursue all cost-effective DSM.
9. **Smart Prices:** "Smart" pricing arrangements that encourage conservation are likely the lowest cost option to promote energy conservation and efficiency. The Board should hold a generic hearing to explore how smart pricing can be used to promote the wise and efficient use of natural gas and electricity.

Environmental Defence submits that the above changes are necessary to ensure that the Board's DSM Framework enables the achievement of all cost-effective DSM as directed by the Minister. Each of these changes, and the rationale for them, are discussed in more detail below.

Purpose of DSM - Make Goals Consistent with the Directive

Reference: Draft Report s. 1.3

In the *Purpose of DSM* section of the Draft Report, the Board lists three goals that gas DSM programs should focus on. Unfortunately, the achievement of “all cost-effective DSM” is **not** one of the draft goals despite the fact that the Board has received a legally-binding Directive to create a DSM Framework that “shall enable the achievement of all cost-effective DSM”. To ensure consistency with the binding Directive, Environmental Defence requests that the DSM Framework include “the achievement of all cost-effective DSM” in the list of DSM goals. In our submission, this should be the first and primary goal listed.

According to page 5 of the Draft Report, the Minister’s Directive requires the DSM Framework to enable “the achievement of all cost-effective DSM, *as far as is appropriate and reasonable*” (emphasis added). However, the Minister’s Directive does not apply the qualifier “as far as is appropriate and reasonable” to the goal of achieving “all cost-effective DSM”. Instead, the “appropriate and reasonable” qualifier in the Directive, which also speaks to the “respective characteristics of the gas and electricity sector,” clearly only applies with respect to the goal of aligning the gas and electric conservation programs. The relevant text of Minister’s directive is excerpted below, with the qualifier in italics.

the DSM Framework shall enable the achievement of all cost-effective DSM and more closely align DSM efforts with CDM efforts, *as far as is appropriate and reasonable having regard to the respective characteristics of the natural gas and electricity sectors*

The qualifier is also problematic because it a vague and indefinite exception to the goal of achieving all cost-effective DSM. Environmental Defence submits that the qualifier should be removed from any statements regarding the goal of achieving all cost-effective DSM in the DSM Framework.

DSM Targets and Budgets Should be determined in Hearings based on Utility Applications

Reference: Draft Report s. 4 (q. 2) & s. 5 (q. 1)

The draft Report outlines two options for setting DSM targets and budgets. According to Option 1, the gas utilities would develop and propose long-term DSM targets and budgets for the Board’s review and approval. According to Option 2, the Ontario Energy Board would develop provisional long-term DSM savings targets and a guideline for maximum DSM budget levels. Environmental Defence strongly supports Option 1.

Environmental Defence believes that this is a critically important issue. If Option 2 is selected, including the proposed targets and budgets, the DSM Framework will be completely inconsistent with the Minister’s binding Directive. Very simply, the Framework will not enable the achievement of all cost-effective DSM. Instead, it will likely result in a far lower level of DSM. This could mean that billions of dollars in net savings would be lost.

Environmental Defence has two fundamental objections to Option 2. First, from a procedural and organizational perspective, the Board is much better placed to review and decide on applications made by the utilities rather than undertake its own assessment of the DSM potential. Second, the proposed budgets and targets are not supported by evidence that they will enable the achievement of all cost-effective DSM. They also appear to be far below all indicators of the cost-effective DSM potential.

Role and Core Competencies of the Board

Environmental Defence submits that, from a procedural and organization perspective, the Board is not best suited to undertake its own assessment of DSM potential in Ontario and to develop DSM targets and budgets. It is a very difficult, iterative and time consuming process to develop DSM targets and budgets that will achieve all the feasible and cost-effective DSM, as quickly as possible, subject to the constraint that the DSM budgets must not cause undue rate increases. With the greatest of respect, the Ontario Energy Board simply lacks the resources and the hands-on knowledge and expertise to perform this function. It is simply not one of the Board's core competencies; nor should it be.

On the other hand, this is an activity at which Enbridge Gas Distribution ("Enbridge") and Union Gas ("Union") excel. During the past twenty years they have developed and implemented some of the most cost-effective DSM programs in North America. It is now time to move DSM in Ontario to the next level, by requesting that these utilities develop, for the Board's review and approval, proposed programs and budgets which will achieve all cost-effective DSM.

Furthermore, there are significant benefits to setting the budgets and targets in the hearing context. Most importantly, a hearing is based on a thorough review and testing of *evidence*. Hearings allow direct involvement of stakeholders representing a wide range of interests with the right to ask interrogatories and cross-examine. These aspects of the hearing process are intended to improve the final outcome, hold applicants accountable, and ensure a solid foundation for the final result. Hearings are also open and transparent. In our submission, the Board's core role and core competency is to preside over hearings such as this and to make the ultimate decision based on the evidence and submissions of the parties.

Proposed DSM Budgets and Targets Unsupported by Evidence and are set Too Low

The Board has suggested a DSM savings target of 0.8% of total gas sales and DSM budgets of \$64 million for Enbridge and \$46 million for Union by 2020.² However, the Draft Report provides **absolutely no evidence or analysis** to demonstrate that these proposed targets and budgets are consistent with the Minister's Directive to establish a framework that will "enable the achievement of all cost-effective DSM". In other words, the Draft Report provides no evidence or analysis to show that its proposed maximum annual DSM budgets will allow Enbridge and Union to achieve all the cost-effective DSM in their franchise areas.

The Draft Report does not cite any studies of DSM potential. Instead, it appears that the Board's proposed DSM targets and budgets are based on a review of targets and budgets in a number of

² Draft Report, p. 15 & 21.

states and provinces.³ However, by focusing on a jurisdictional review, *the Board has asked the wrong question*. The Minister did *not* direct the Board to adopt budgets and targets in the mid-range of other jurisdictions. The Minister directed the Board to develop a framework to achieve all cost-effective DSM. This is very different from a jurisdictional review.

It is unlikely that the findings of a jurisdictional review would reveal the level of DSM spending needed to achieve all cost-effective DSM in Ontario. There is no necessary relationship between the historic budgets in other jurisdictions and the amount needed in Ontario. For example, there are many differences between Ontario and the other jurisdictions. The budget levels elsewhere may not be appropriate here. Furthermore, many of the other jurisdictions have not yet mandated the achievement of all cost-effective DSM. A study of the budgets in jurisdictions which do not have this same key requirement is of minimal use. Further still, the jurisdictional review focuses on historic levels of DSM. However, Ontario and other jurisdictions are only now reaching the stage in DSM development whereby the achievement of all cost-effective DSM is being mandated.

It also appears that the proposed targets and budgets are *far below* the amount needed to achieve all cost-effective DSM. Some indicators of this include the following:

- The Board's proposed annual DSM savings target of 0.8% of total gas sales is marginally lower than the utilities' *current* status quo level of DSM savings, namely, 0.81% of annual sales.⁴
- The Massachusetts and Vermont gas utilities, which are mandated to acquire all cost-effective DSM, have annual energy savings equal to 1.08% and 1.29% of sales respectively.⁵ That is between 35% and 61% higher than the target proposed by the Board.
- Studies completed for Enbridge and Union found an achievable DSM potential that is between 50% and 75% *higher* than the 0.8% target proposed by the Board.⁶ Furthermore, new and updated studies would find an even larger DSM potential based on improved methodologies and the current best practices.⁷

³ See e.g. Draft Report, p. 19, stating that the budget proposal was "guided by the level of spending in the larger DSM landscape throughout North America."

⁴ Draft Report, p. 14, table 2.

⁵ Concentric Energy Advisors, *Review of Demand Side Management (DSM) Framework for Natural Gas Distributors: Supplemental Report*, (September 15, 2014), pp. 5 and 7

⁶ See Toronto Atmospheric Fund, *Establishing a Conservation-First Policy for Ontario's Natural Gas Utilities*, August 11, 2014, p. 7; Marbek Resource Consultants, *Natural Gas Energy Efficiency Potential: Update 2008, Residential, Commercial and Industrial Sectors Synthesis Report*, Submitted to Enbridge Gas Distribution, September 2009 (EB-2011-0295, Exhibit B-2-7); Marbek Resource Consultants, *2008 Natural Gas Energy Efficiency Potential Study with 2011 Summary Report Update*, Submitted to Union Gas Ltd, July 2011 (EB-2011-0327, Exhibit A-1-K).

⁷ Toronto Atmospheric Fund, *Establishing a Conservation-First Policy for Ontario's Natural Gas Utilities*, August 11 2014, p. 7-8; Some examples of improved DSM potential methodologies and best practices are discussed in Enerlife Consulting, *Evidence Concerning Demand Side Management Potential in GTA*, September 11, 2013 (EB-

- The proposed budget levels are equivalent to only 2.5% of the utilities' total commodity and distribution revenues in 2013.⁸
- The proposed budget levels are not even close to a level that might cause undue rate increases. The Board's proposed budgets would lead to a maximum annual rate increases of only 2/10ths of 1%.⁹
- The DSM budgets in numerous American states are higher than the budget proposed by the Board for Ontario's gas utilities.¹⁰

The above and other evidence indicate that the Board's proposed targets and budgets are far too low. However, the more fundamental issue is that the Board's current proposed numbers are not based on evidence. Instead of targets and budget that are pre-determined by the Board, the utilities should be asked to use their wealth of knowledge, experience, and expertise to develop proposals that will then be reviewed, adjusted, and approved through the normal Board hearing processes.

Finally, the Board justifies its proposed low DSM budget levels based on the fact that most of Ontario's electricity is sourced in Ontario whereas most of Ontario's natural gas comes from western Canada and Pennsylvania.¹¹ This was an important factor in the Board's determination of the "absolute costs that are appropriate for natural gas DSM efforts."¹² In our respectful submission, this a red herring. The primary purpose of DSM programs is to reduce consumers' energy bills. Therefore, from a consumer perspective, reducing energy bills by avoiding the need to import \$1 billion of gas from western Canada is just as beneficial as reducing infrastructure and operating costs in Ontario by \$1 billion. Consumers pay for the cost of gas extraction infrastructure through gas prices just as fully as they pay for electricity generation infrastructure through electricity prices. From the perspective of a consumer's DSM savings, it does not matter where that infrastructure is situated.

If anything, the fact that most of Ontario's gas is sourced from western Canada and Pennsylvania is a reason for *higher* DSM budgets, not lower ones. Gas DSM programs will increase jobs and economic growth in Ontario by reducing the outflow of Ontario dollars to western Canada and Pennsylvania. This is a significant additional benefit to gas DSM programs that is *not* currently accounted for in the Board's existing framework.

2012-0451, Exhibit L.EDG.ED.1) and Energy Futures Group, *DSM Potential in the GTA*, June 28, 2012 (EB-2012-0451, Exhibit L.EDG.GEC.2).

⁸ Draft Report, p. 21; Ontario Energy Board, *2013 Yearbook of Natural Gas Distributors*, p. 5 (The utilities' total 2013 revenues were \$2.6 billion and \$1.9 billion respectively).

⁹ The difference between the proposed and actual Enbridge budgets is \$31.2 million (\$64 million - \$32.8 million). Assuming equal budget increases over six years, the annual budget increase is \$5.2 million. In 2012 Enbridge's total operating revenues was \$2.582 billion. [OEB, "2013 Yearbook of Natural Gas Distributors", p. 5]. \$5.2 million is 2/10ths of 1% of \$2.582 billion. The difference between the proposed and actual Union budgets is \$13.8 million (\$46 million - \$32.2 million). Assuming equal budget increases over six years, the annual budget increase is \$2.3 million. In 2012 Union's total operating revenues was \$1.872 billion. \$2.3 million is 1/10th of 1% of \$1.872 billion.

¹⁰ Draft Report, p. 19.

¹¹ Draft Report, p. 22.

¹² Draft Report, p. 23.

Finally, the proposed maximum budget caps will *harm*, not protect, Ontario's consumers since larger *cost-effective* DSM budgets will lead to lower energy bills. For example, a 1% rate increase to finance a higher DSM budget that will lead to a 10% bill reduction for all consumers would clearly be in the public interest (it is not unusual for gas conservation programs to have 10:1 benefit-cost ratios). It is impossible to determine the maximum reasonable DSM rate increase without first examining the bill reduction benefits that will be associated with the rate increase.

In conclusion, Environmental Defence submits that the Board should adopt Option #1, both to comply with the Minister's Directive and to safeguard the interests of consumers.

DSM Potential Study

Reference: Draft Report s. 4 & s. 5

Option 1 in the draft report refers to the gas utilities developing natural gas savings targets "based on most recent potential studies."¹³ Environmental Defence submits that the gas utilities should produce potential studies as soon as possible to support their proposed DSM targets and budgets. The most recent in-depth potential studies are over 5 years old and are now out of date. New studies should be produced based on the most up-to-date methodologies and program types.¹⁴

These potential studies should be produced long before the potential study that will be produced for the mid-term review.¹⁵ Producing earlier potential studies will provide a better basis for the mid-term review potential study and would help ensure that the DSM plans prior to the mid-term review are based on solid evidence and the latest information.

Guiding Principles - Make DSM Plan Requirements Consistent with the Ministerial Directive

Reference: Draft Report, s. 3

Section three of the Draft Report sets out a number of principles "to be considered in the development, assessment and approval of DSM Plans." Principle #2 relates to achieving all cost-effective DSM. Environmental Defence submits that this principle should be elevated to a mandatory requirement that is binding on the utilities. As it currently stands, the principles must be "considered." This is inconsistent with the Minister's Directive, which states that the DSM Framework "shall" enable the achievement of all cost-effective DSM. When developing their DSM targets, budgets, and plans, the utilities should be required to achieve all cost-effective DSM.

¹³ Draft Report, p 12.

¹⁴ Some examples of improved DSM potential methodologies and best practices are discussed in Toronto Atmospheric Fund, *Establishing a Conservation-First Policy for Ontario's Natural Gas Utilities*, August 11 2014, p. 7-8; Enerlife Consulting, *Evidence Concerning Demand Side Management Potential in GTA*, September 11, 2013 (EB-2012-0451, Exhibit L.EGD.ED.1); Energy Futures Group, *DSM Potential in the GTA*, June 28, 2012 (EB-2012-0451, Exhibit L.EGD.GEC.2).

¹⁵ Draft Report, p. 8.

As it is currently worded, principle #2 refers to proposed DSM budgets set by the Board. For the reasons set out in the above section, this reference should be removed. Principle #2 is currently worded as follows:

2. Achieve all cost-effective DSM that result in a reasonable rate impact.

The gas utilities' overall DSM portfolio and individual programs should aim to achieve all the cost-effective DSM available in its franchise area, having regard to the Board's guidance with respect to DSM budgets that the costs required to do so result in reasonable rate impacts for customers. (emphasis added)

Environmental Defence submits that this principle should read as follows:

2. Achieve all cost-effective DSM with reasonable rate impacts

The gas utilities' overall DSM portfolio and individual programs should aim to achieve all the cost-effective DSM available in their franchise areas in a manner that will result in reasonable rate impacts for customers.

DSM Programs – Include Large Volume Customers in DSM Plans

Reference: Draft Guidelines, s. 2.5

According to the Board's Draft Guidelines, the gas utilities are **not** required to establish DSM programs for large volume customers. Environmental Defence submits that this is contrary to the Minister's Directive and not in the best interests of consumers.

First, this is inconsistent with the Minister's goal of achieving all cost-effective DSM because very simply, there is a very significant amount of cost-effective DSM potential for large volume customers. If utilities fail to capitalize on this important sector, as the Draft Guidelines allow them to do, a significant portion of the available cost-effective DSM will not be achieved.

Second, large volume customers are typically the largest and most cost-effective source of DSM savings. Allowing them to be left out of the utilities' DSM plans makes no sense from an economic perspective.

Third, improving the energy productivity of our large volume industrial consumers is essential for the long-term prosperity of Ontario. DSM for large volume customers – typically large industrial facilities – improves productivity by reducing the cost of producing goods. Improved productivity benefits the competitiveness of Ontario's companies inside Canada and globally.

Environmental Defence submits that utilities should be directed to develop DSM programs for *all* customer sectors, including large volume customers.

Total Resource Cost Test vs. Societal Cost Test

Reference: Draft Report, s. 8.2

The Board is proposing that the gas utilities use the Total Resource Cost (“TRC”) Test, not the Societal Cost Test (“SCT”), to evaluate the cost-effectiveness of their DSM programs. 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). It is Environmental Defence’s submission that the use of the TRC Test, which ignores the costs of GHG emissions, is inappropriate for the following reasons.

First, this would represent a “step backwards” seeing as the SCT was adopted by the Board over 20 years ago. In 1993 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.¹⁶

Concerns over GHGs have increased since that time, the science has developed further, and decision-makers have come closer to pricing carbon. For example, both the World Bank and International Monetary Fund formally and publicly support carbon pricing.¹⁷ Furthermore, the DSM potential studies for Enbridge and Union both monetized GHG emissions and the Enbridge study expressly anticipated the likelihood that the Board’s TRC calculations would include a GHG adder in the future.¹⁸ In this context, the Board should be moving forward – not backward – by accounting for the true costs of GHG emissions in its DSM screening.

Second, failing to account for the environmental benefits of DSM is inconsistent with Government policy. Section 2 of the *Ontario Energy Board Act* requires the Board to “promote energy conservation and efficiency in accordance with the policies of the Government of Ontario...” 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. In this context, it would be irrational for Ontario’s DSM Framework to fail to account for the cost of GHG emissions and the corresponding benefit of DSM.

¹⁶ E.B.O. 169-III Report, pp. 34 & 35.

¹⁷ World Bank, *Statement Putting A Price On Carbon*, June 3, 2014 (<http://www.worldbank.org/content/dam/Worldbank/document/Carbon-Pricing-Statement-060314.pdf>); International Monetary Fund, *Factsheet: Climate, Environment, and the IMF*, September 5, 2014 (<http://www.imf.org/external/np/exr/facts/enviro.htm>).

¹⁸ Marbek Resource Consultants, *Natural Gas Energy Efficiency Potential: Update 2008, Residential, Commercial and Industrial Sectors Synthesis Report, Submitted to Enbridge Gas Distribution*, September 2009 (EB-2011-0295, Exhibit B-2-7); Marbek Resource Consultants, *2008 Natural Gas Energy Efficiency Potential Study with 2011 Summary Report Update*, Submitted to Union Gas Ltd, July 2011 (EB-2011-0327, Exhibit A-1-K).

Furthermore, the Ontario Government has committed to take climate change into account in government decision-making. In particular, Premier Kathleen Wynne's has directed the Minister of Environment and Climate Change to move forward on Climate Change by:

Supporting the Secretary of the Cabinet and the President of the Treasury Board to **ensure climate change is taken into account in the government decision-making process.** This will include **greenhouse gas (GHG) impact analyses** for significant policies, legislation and regulations and adaptation considerations for public infrastructure investments. (emphasis added)¹⁹

The Premier's letter also speaks of a new long-term climate change strategy that will be implemented through an "all-of-government approach" supported by the Minister of Energy and others.²⁰ The Premier's letter makes it clear that the policy of the Ontario Government is to include GHG impacts in decision-making. The Board's DSM Framework should be consistent with this policy.

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 Ontario's GHG reduction targets. For example, reducing natural gas consumption by just 1% per year starting in 2015 would lower Ontario's GHG emissions by 2.4 megatonnes and achieve 15% of Ontario's 2020 GHG reduction target.²¹

Therefore it is Environmental Defence's submission that the Board should direct the gas utilities to use the SCT to evaluate the cost-effectiveness of their DSM programs.

Quantify "Jobs and Growth" Benefits

Reference: Draft Report, s. 8

DSM programs result in significant benefits to Ontario's economy. However, these highly positive impacts are not currently tracked or considered as part of the DSM planning process. Utilities should be encouraged to quantify the impact of their DSM programs on increased jobs, productivity, and economic growth. These benefits should be tracked and should be considered as part of the utilities' DSM plan applications.

A report by Dr. Ernie Stokes for the Centre for Spatial Economics examined the economic benefits of Enbridge implementing the economic DSM potential in its franchise area. The report found that, by 2026, this would create over 28,000 jobs, increase productivity by 0.20%, and increase Ontario's GDP by over \$5 billion.²² This report is an example of how these economic

¹⁹ Letter from Premier Kathleen Wynne to the Honourable Glen Murray, September 25, 2014, Re: 2014 Mandate letter: Environment and Climate Change (<https://www.ontario.ca/government/2014-mandate-letter-environment-and-climate-change>)

²⁰ *Ibid.*

²¹ Toronto Atmospheric Fund, *Establishing a Conservation-First Policy for Ontario's Natural Gas Utilities*, (July 30, 2014), pp. 5 & 57.

²² Centre for Spatial Economics, *The Economic Impacts of Reducing Natural Gas Use in Ontario*, April 2011, p. 7.

impacts can be calculated. This report also shows that the economic benefits of DSM, which are currently unaccounted for, are very large.

Shareholder Incentives

Reference: Draft Report, s. 6

Environmental Defence agrees with the Board that shareholder incentives “can have a considerable impact on the motivation of the gas utility to pursue DSM.”²³ Furthermore, it is Environmental Defence’s submission that the shareholder incentive mechanism must be consistent with the Minister’s Directive. That is, it must motivate the gas utilities to pursue **all** cost-effective DSM, including large volume customer DSM savings. Environmental Defence also agrees that “those activities which are more difficult than others, or are delivering on key objectives, warrant a greater share of the incentive.”²⁴

However, Environmental Defence does **not** agree with the proposal that large industrial programs and market transformation should necessarily “be allocated a smaller portion of the incentive pool”.²⁵ On the contrary, the shareholder incentives for these programs should be directly related to their benefits and the degree of effort, ingenuity and entrepreneurship that was required to make them successful.

Program Evaluation

Reference: Draft Report, s. 8

Environmental Defence agrees that in order to “increase transparency, objectivity and efficiency” the OEB Staff should play a central role in the evaluation, measurement and verification process of the gas utilities’ DSM programs with the assistance of a Stakeholder Advisory Committee consisting of intervenor and utility representatives.²⁶

Smart Pricing

Reference: Draft Report, s. 7

The Board’s draft DSM Framework Report does **not** include smart pricing as part of its proposed strategy to achieve all cost-effective DSM. Environmental Defence submits that this omission is not in the interest of consumers or the province since Smart Prices are the lowest cost option to promote energy conservation and efficiency.

For example, higher volume-based charges, offset by lower fixed monthly charges, would increase consumers’ incentive to conserve energy throughout the year. In addition, higher rates in the winter, offset by lower rates in the summer, would reduce the need for new, high-cost,

²³ Draft Report, p. 4.

²⁴ Draft Report, p. 27.

²⁵ *Ibid.*

²⁶ Draft Report, p. 32.

supply-side infrastructure to meet the peak demand for natural gas on cold winter days. Finally, enhanced interruptible rates for large volume customers can help avoid the need for new high-cost, peaking supply-side infrastructure spending.

Environmental Defence submits that the Board should hold a generic hearing to explore how smart pricing can be used to promote the wise and efficient use of natural gas and electricity.

Conclusion

The Minister's Directive states that the DSM Framework "shall" enable the achievement of all cost-effective DSM. That Directive is binding; the *Ontario Energy Board Act* states that the Board "shall implement" directives such as this.²⁷ However, more fundamentally, the achievement of all cost-effective DSM would be a massive benefit to Ontario. This would result in overall *lower* gas bills and *lower* GHG emissions while also creating jobs and economic growth. Environmental Defence requests that the Board implement the above changes so that these important goals can be achieved.

Please do not hesitate to contact me should anything further be required or of assistance.

Yours Truly,



Kent Elson

cc: All parties in EB-2014-0134

²⁷ *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, s. 27.1 & 27.2.