

Board File Number: EB-2019-0003

Consultation Regarding

Post-2020 Natural Gas Demand Side Management Framework

Submissions of Energy Probe Research Foundation

June 27, 2019

DSM Post 2020 DSM Review EB-2019-0003
EP Submissions

Executive Summary

Energy Probe supports the development of a new DSM Plan for the Post 2020 Period, provided the Paradigm for the new DSM Plan is changed to be customer focussed, with modified Objectives, Goals, and Scope.

The primary changes to the current plan suggested by Energy Probe are a focus on ratepayer gas use and bill reductions consistent with the RRF.

Energy Probe submits that institution of the Federal Carbon Tax CO₂/Carbon reduction is not a direct objective for the new DSM Plan, but is external to DSM costs paid by ratepayers.

The post 2020 DSM Regulatory Framework should include DSM in the OEB IRM Rate Setting Formula, rather than as a Y factor i.e. as core business of the utility.

Shareholder rewards should be modified

The Utilities are seeking approval of their DSM plans by March, 2020. They will need a revised Framework in place by late 2019,

If a proper review of the DSM Framework and Guidelines is to occur these dates are not realistic.

To allow a broad Review, Energy Probe suggests extension of the existing Framework and DSM programs for 2020.

Background

The Board has invited Parties in the EB-2019-0003 Consultation to provide input on the appropriateness of the **current Principles, Goals, Objectives and Scope** in the Post 2020 OEB DSM Framework and Guidelines:

- 1. Principles:** Do the guiding principles from the 2015-2020 DSM Framework remain appropriate? If not, what principles are needed and why?
- 2. Goals and objectives:** What should be the primary goal(s) and objective(s) of the post-2020 DSM Framework?
- 3. Scope:** Should the OEB undertake major revisions to the 2015-2020 DSM Framework or focus on specific updates that are more minor in nature?

Energy Probe Submissions

A. Perspective and Context

Ontario natural gas demand continues to increase, as a result of economic GDP factors, such as housing stock and population growth, substitution for electricity and use for power generation

The Ministry of Energy and the OEB as the government agency in charge of gas DSM should conduct a comprehensive review how natural Gas DSM fits into the energy future of the Province in the next Long Term Energy Plan.

Gas ratepayers are now spending over \$140 million a year on EGI DSM programs. Over the years, DSM spending. Increased to this level from about \$7 million in 1998,

A new 5 year DSM Plan could cost ratepayers close to \$1 billion (including the current levels of shareholder incentives ~ 15%).

A significant question to be answered is “are ratepayer funds are continuing to provide the same leverage and results across the EGI Franchise”.

For example, for each dollar of ratepayer funds spent how much financial leverage is being obtained from governments and private sector that invest in DSM?

With regard to results, the question to be answered is “are the bill saving and reductions in gas use getting less per dollar invested”/.

For example, despite increased spending, for the Residential/Low volume class, the rate of decline in Normalized Average gas use per Customer (NAC) has moderated.

In its last COS Rates Case, EGI indicated there are several other factors for this, including changes to housing stock, building code and natural gas prices.

Energy Probe suggests the Scope and Timeframe of the OEB review may not allow a proper comprehensive review to establish a new paradigm for natural gas DSM. More time is required.

The Board should retain a consultant to examine in detail the DSM financial and savings results over the last two decades, compare to other jurisdictions and provide a new paradigm for how gas DSM programs are delivered in Ontario.

B. Goals and Objectives

Energy Probe suggests it is premature for the Board to review and potentially modify the current DSM Framework, Goals and Guiding Principles.

This should occur after a comprehensive review by the Board with Stakeholder input.

Nonetheless, working within the parameters set out in the OEB request, Energy Probe proposes the following primary Objective for the next gas utility DSM Plan for 2020-2025:

To provide Demand Side Management to allow gas ratepayers an opportunity to reduce their gas consumption and bills.

Energy Probe suggests this Goal is singular, simple, clear and consistent with the OEB Objects for Gas in the Act and with the Board's customer focus in the Renewed Regulatory Framework (RRF) for gas.

Utility Goal

Over the term of the approved DSM Plan, to attain gas cost savings and bill savings commensurate with the achievable potential in each sector and rate class, within Board-approved levels of affordability to ratepayers

C. Guiding Principles

1. Targets

Energy Probe suggests DSM Targets, over the term of the Plan, should be Sectoral and based on targeting reductions in end-use gas use:

Quantitative Targets should be established based on resource acquisition measures that will reach the achievable potential and reductions in gas use and bills.

Qualitative Targets should be established based on providing information/education to ratepayers resulting in market transformation to a conservation mentality.

Utility Rewards should be linked to these Targets.

2. Equity and Universality of DSM

EP suggests an **Equity Principle**

All gas utility ratepayers should have equal opportunity to participate and benefit directly from DSM

EP suggests a **Universality Principle**

Programs/measures should be designed to allow all Ontario gas ratepayers to participate and hence benefit from their DSM investment (~\$25 dollars/yr. residential class) in rates each year.¹

¹ In this submission Ratepayers are parties that pay directly for DSM on their gas bill (as distinct from the broader term "gas users or gas customers").

3. DSM Cost and Budgets

In the post 2020 period, DSM Budgets should be developed to achieve achievable potential for each sector and end use, over the 5 year Term of the Plan. Energy Probe suggests the \$2 per month affordability criteria (residential class) should be maintained.

There may be certain sectors where the Achievable Potential cannot be met for structural, financial or competitive reasons. This should be taken account of in the Plan.

4. Disconnect Environment – CO₂/Carbon Reduction, from DSM

Energy Probe notes that when gas DSM programming was approved in Ontario in 1986 there was no Carbon Tax and it was much later that GHG/carbon reduction became part of the cost/ benefit analysis of DSM measures and programs.

Cap and Trade was instituted by the Ontario Liberal Government in 2016 and gas ratepayers had to pay approximately \$80 per year (residential ratepayers) on their gas bills.

Energy Probe has opposed the Cap and Trade regime and associated costs to be paid by users of carbon fuels on economic grounds. We take the same position on the Federal Carbon Tax.

In the Prior DSM Guidelines reducing GHG/Carbon was accepted as an added benefit and included in the TRC Plus Test in the analysis of costs and benefits applicable to DSM.

Now Federal legislation now in place and inter alia, imposes the Carbon Tax on natural gas consumption.

Accordingly Energy Probe takes the position that in a Carbon Tax regime, environmental costs are external to DSM Programs and should not be monetized and/or included the DSM cost/benefit equation.

The reason for this position is that the cost of meeting Government GHG/Carbon Goals/targets comes from the tax base not from gas rates.

Accordingly, Energy Probe submits that GHG/ Carbon reduction is neither an added cost nor a benefit relevant to gas ratepayers funding DSM.

Ratepayers, like other consumers are now paying the Federal Carbon Tax on their natural gas consumption and on gasoline.

The profile for low volume ratepayers includes homeowners, condominium/apartment owners who are listed on the EGI Bill and Parties (landlords) that rent property, that are listed on the EGI Bill.

The environmental link is indirect i.e. natural gas consumption reductions at a macro level may including related to natural gas end use, reduce GHG emissions and assist in meeting Federal Commitments under the Paris accord. That is why the Carbon Tax is in place.

There is currently no mechanism, except the tax system, that can compensate gas ratepayers for paying costs related to reducing GHG. If a tax rebate system such as a tax credit for DSM/Conservation participation and investment is instituted, then this could be re-considered.

Leaving aside the scientific debate regarding CO₂ in the ecosystem, EP believes that in a Carbon Tax regime such as that in Canada, CO₂/GHG reduction is not a legitimate adder to either the cost or benefit of Gas DSM programs.

Accordingly EP submits that the TRC or other cost/benefit test for DSM measures should not include a factor related to CO₂/Carbon.

5. Social Subsidies

EP acknowledges that income is a barrier to participation in DSM for certain ratepayers,

The Board has addressed this in its approval of DSM programs, by changing the threshold for the economic tests and directing targeting of low-income and social housing.

Energy Probe suggests the Board should provide a Guideline regarding how much of the DSM costs paid by ratepayers (~\$2 / month for residential) should be allocated to provide added incentives that are social subsidies.

The balance is to overcome income barriers to participation, but not to subsidize lower gas costs.

In addition, it is important to distinguish participation barriers for low income homeowners and low income tenants in Social Housing.

As noted above, Low Income homeowners, including many seniors, have significant income and affordability barriers to participation in DSM.

Public Social Housing is funded from the Municipal Tax base with financial support from higher levels of Government.

Energy Probe believes that ratepayer funds should not be used to increase DSM incentives for the public/social housing sector. The DSM eligibility qualifications and incentives for this sub-sector should be the same as for private rental housing.

Income is not the underlying need requiring subsidies for Social Housing providers, unlike individual low income home-owners.

6. Regulatory Framework for DSM

Under the OEB RRF Regulatory Framework for natural gas Incentive Regulation, DSM costs are currently treated as a Y factor i.e. a cost pass-through. Therefore, unlike other operating costs, there is less incentive for the utility to reduce costs and increase the efficiency of its DSM programs.

Energy Probe suggests that in the next DSM Plan, DSM costs should become part of the RRF EGI Incentive Regulation Rate Setting Framework and Rate Setting Formula.

The analogy is the utility investing in technology and infrastructure to reduce transmission and distribution costs for ratepayers.

Providing support to ratepayers to invest in technology and infrastructure behind the meter is also an appropriate utility function with the utility cost-sharing with the ratepayers who own the fixed assets.

7. Considerations for a new DSM Paradigm

As noted above, Energy Probe believes that DSM should become part of the Renewed Regulatory Framework for Gas.

Energy Probe suggests that this requires a reconsideration of how DSM is regulated by the Board:

For example, DSM has been excluded from the Growth factor in the IRM Rate Setting Formula.

It should now be Included for gas utilities, (not for Electricity CDM which is accounted for differently).

The Utility should prepare an integrated 5-year DSM Plan, analogous to the utility Distribution System Plan (DSP) that sets out budgets and targets for each Sector based on the most recent Achievable Potential Study (APS). Affordability criteria would be applied in determining the actual potential and associated gas use and bill reductions

The OEB would conduct a Base Year COS DSM O&M Review, followed by annual indexing of budget envelope(s) and comprehensive tracking and reporting to the Board

As noted earlier, National/Provincial Climate Change (Carbon Pricing) is external to DSM and should not be part of economic cost- benefit test(s) for DSM Programs/Measures.

Shareholder Rewards should be based on reduction of gas costs for ratepayers.

The Shareholder should not be compensated for reduced volumes (LRAM) but for achieving lower gas bills for ratepayers. A shareholder reward scheme for example, based on an ROE adder should be considered.

The core business of effectively delivering gas to ratepayers is a Corporate-level commitment that is collateral with the Franchise Rights of the Utilities. Providing effective DSM to ratepayers is a similar commitment.

C. Comments on DSM Goals and Utility Guiding Principles

GOALS	Retain	Replace/Modify
i Assist consumers in managing their energy bills through the reduction of natural gas consumption.	✓	Customer Focus as per RRF
ii. Promote energy conservation and energy efficiency to create a culture of conservation.	✓	Consistent with OEB Objects for Gas
iii. Avoid costs related to future natural gas infrastructure investment, including improving the load factor of natural gas systems		Modify <i>Ensure Load Forecasts related to Storage and geocentric/regional Transmission and Distribution Infrastructure development; take DSM into account, including Community Expansion.</i>
UTILITY GUIDING PRINCIPLES		
New Principle Customer Focus		<i>The Utility will provide Customer-focussed DSM consistent with the RRF: "Provide information and incentives to ratepayers to reduce barriers to investment in DSM Criteria -rate affordability -universality</i>
1. Invest in DSM where the cost is equal to or lower than capital investments and/or the purchase of natural gas.		Modify <i>The Utility will Design DSM Programs guided by approved Economic Tests and the APS</i>
2. Achieve all cost-effective DSM that result in a reasonable rate impact.		Modify <i>During the term of the Plan the Utility will achieve all cost-effective DSM identified in the</i>

		<i>APS in each sector, taking into account affordability to ratepayers</i>
3. Where appropriate, coordinate and integrate DSM and electricity CDM efforts to achieve efficiencies.		Remove “Where Appropriate” Modify <i>The Utility will Design and Deliver Gas DSM in coordination with the IESO Electricity CDM and other Government Programs</i>
4. Gas utilities will be able to recover costs and lost revenues from DSM programs		Modify <i>Gas utilities will recover from ratepayers their legitimate costs of DSM programs</i>
5. Design programs so that they achieve high customer participation levels	✓	Modify ADD <i>If programs do not meet eligibility criteria for participation of certain ratepayers, then opt out options will be provided</i>
6. Minimize lost opportunities when implementing energy efficient upgrades.	✓	Utility DSM Program Design Criterion taking into account baseline Building Code requirements.
7. Ensure low-income programs are accessible across the province.	✓	Universality Principle as applicable specifically to LI ratepayers
8. Programs should be designed to pursue long-term energy savings.	✓	Economic Tests address this
9. Shareholder incentives will be commensurate with performance and efficient use of funds.		Modify to customer- centric rewards <i>Shareholder Rewards are based on reduction of gas use and of customer bills</i>
10. Ensure DSM is considered in gas utility infrastructure planning at the regional and local levels.	✓	Modify-Not much action to date <i>The Utility should incorporate DSM in to its Planning Criteria including in its Community Expansion Program</i>

Submitted on Behalf of Energy Probe Research Foundation

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