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ONTARIO ENERGY BOARD

EB-2008-0346

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Kirsten Walli  
Board Secretary  
Ontario Energy Board  
27<sup>th</sup> floor - 2300 Yonge Street  
Toronto ON M4P 1E4

Dear Ms Walli,

**Draft Demand Side Management Guidelines for Natural Gas Distributors**

**Board File No.:** EB-2008-0346

**Our File No.:** 339583-000030

I am writing on behalf of Canadian Manufacturers & Exporters (“CME”) to provide comments on the Board Staff Discussion Paper entitled “Draft Demand Side Management Guidelines for Natural Gas Distributors”. CME’s comments will follow the headings of Board Staff’s Paper and, in particular, will comment on the proposed Demand Side Management (“DSM”) framework, adjustment factors in the total resource cost test, development of DSM budgets and targets, resource acquisition (TRC net savings) target, market transformation targets, low income customer programs and shared saving mechanism (“SSM”).

**THE CHANGING LANDSCAPE OF CONSERVATION AND ENERGY EFFICIENCY IN ONTARIO**

In assessing the proposed DSM framework, CME urges the Board consider the pace at which the landscape of conservation and energy efficiency in Ontario has changed over the past few years. Since the Board’s Decision in the DSM Generic Hearing (EB-2006-0021), there has been an increase in the number of parties that deliver energy efficiency initiatives or other conservation activities, some of which overlap with natural gas distributor sponsored DSM programs. The Federal Government and Ontario Government have become increasingly active in this area. The Ontario Power Authority has undertaken a variety of energy efficiency initiatives. Electricity LDCs deliver CDM. Municipalities, such as the City of Toronto, offer conservation and energy efficiency programs (see for instance Exhibit L, Tab 5, Schedule 1 from the IPSP proceeding (EB-2007-0707)).

CME itself now administers funding, provided by the Government of Ontario, through its “SMART Program”, to help small and medium sized manufacturers improve their productivity so that they can compete more effectively in the global economy. CME’s SMART Program assists manufacturers in improving their energy efficiency by providing 50% funding for approved upgrades up to \$50,000. In addition, CME offers resources to review manufacturing operations in order to identify areas where energy efficiency improvement is possible. CME’s SMART Program also integrates another CME initiative, referred to as the Energy Benchmark Study or “Advancing Opportunities in Energy Management”, that provides companies with energy management benchmarks that will guide the identification of energy efficiency improvement opportunities. The industry wide benchmarks, which are currently under development, will also help CME, government and utilities develop programs that align with the needs of Ontario

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industry. Both the SMART Program and the Energy Benchmark Study use the same online diagnostic tool to record and compare energy use, and to assist with the implementation of energy efficiency best practices.

In addition to the increase of players offering energy efficiency programs, CME also understands that the Ontario Government intends to release the *Green Energy Act* sometime within the next six to eight weeks. CME does not know the extent to which the *Green Energy Act* will affect DSM delivered by the natural gas distributors. To the extent that the *Green Energy Act* affects DSM, it should be reflected within the Board's Guidelines.

CME also believes that the Board should consider current economic conditions. The current weakening economy poses significant challenges for Ontario's manufacturing and exporting sectors. Companies are finding it more difficult to access the financing they require to invest in new products and new technologies, grow their business, and in some cases simply stay in business. CME believes that, if DSM is delivered strategically and cost effectively, then it can assist the manufacturing and exporting sectors to emerge from the recession in a stronger competitive position. For this reason, CME urges the Board to ensure that the Guidelines remain sufficiently flexible to permit the natural gas distributors the ability to quickly respond to changing economic conditions.

CME believes that the current DSM Framework needs to be reconsidered. This reconsideration should be, in part, informed by the fact that more parties are involved with energy efficiency and conservation, the *Green Energy Act* will be released in the near future, and the current economic conditions. In assessing how DSM should be measured, what constitutes appropriate shareholder financial incentives and the role of gas distribution companies in program development, delivery and evaluation, the Board should also consider the extent to which gas distribution companies can integrate their DSM programs with other energy efficiency activities conducted by government, other utilities, municipalities or industry associations.

#### **DSM FRAMEWORK**

CME agrees that the current DSM framework has certain disadvantages which were set out in Board Staff's discussion paper. In particular:

- (a) It requires an enormous amount of time, effort and money on the calculation of, and debating of numbers;
- (b) Is quite complex and the complexity promotes game playing on the part of the utility and stakeholders;
- (c) It can, under certain circumstances, create unnecessary distrust or animosity between utilities and stakeholders; and
- (d) At certain times, may make ratepayers cynical about DSM activities.

These disadvantages cannot be easily solved. CME recognizes that the evidence necessary to make significant changes to the DSM framework will not be available in time for the natural gas distributors to obtain approval of filed plans prior to 2010. For this reason, CME supports Board Staff's view that the most efficient way to proceed, in the short term, is to make changes to the existing DSM framework.

That said, CME urges the Board to also begin developing a long-term strategy on how to improve DSM in Ontario. CME supports Board Staff's suggestion that preliminary work be done to review the experience of other jurisdictions in using the "normalized average gas consumption

per customer class or specific end-uses” approach. CME also suggests that Board Staff consider reviewing, more broadly, how DSM is measured in other jurisdictions, and the various shareholder financial incentives or rewards provided in other jurisdictions (including both the level of incentives and level of budgets).

If the Board agrees that further research should be undertaken, then CME believes that the Board should reconsider the length of the next DSM plan. It may be appropriate for the Board to reduce the term of the natural gas distributors’ DSM plans to one or two years. This would allow the Board to respond to Board Staff’s research in a timely manner. A shorter term would also allow for the DSM framework to effectively respond to the increased players delivering conservation and energy efficiency programs, changes that may flow from the *Green Energy Act*, and the current economic conditions.

#### **DEVELOPMENT OF INPUTS AND ASSUMPTIONS**

The Board has produced a report by Navigant Consulting Inc. updating the DSM measures and input assumptions. By letter dated February 6, 2009, the Board provided Intervenor with a deadline for submissions on the Navigant Report of March 6, 2009. CME will provide its comments on the inputs and assumptions on or before that date.

#### **ADJUSTMENT FACTORS IN THE TOTAL RESOURCE COST TEST**

CME supports Board Staff’s proposal that the TRC test continue to be the required screening tool for proposed DSM measures and programs.

With respect to spillover, the Guidelines require that natural gas distributors seeking to include spillover in the calculation of TRC savings must provide “comprehensive and convincing empirical evidence” which clearly quantifies the effect that the spillover a specific program has had on program savings and the distributor’s revenue. CME wishes to clarify that absolutely no spillover should be included in the calculation of TRC unless Board approval is first granted. Furthermore, in CME’s view, it will be difficult to demonstrate, with any level of certainty, the effects of spillover. Nevertheless, if and when a natural gas distributor brings forward credible evidence of spillover, that evidence should be subject to the scrutiny of a formal proceeding where there can be a fulsome testing of that evidence. This is best achieved through the conventional hearing process where there is a complete discover process followed by a hearing. The Board would then be able to decide whether the proposed spillover should be included in the calculation of the TRC on a full evidentiary record.

With respect to the determination of whether a distributor has met its TRC target, CME supports the proposed Guidelines establishing that the input assumptions for the calculation of SSM not be locked in, but instead, be based on the best available information at the time of evaluation. This will allow utilities to receive incentives based upon actual results rather than outdated input assumptions. As a matter of principle, incentives should be based on what was actually achieved, and not on what the parties thought would be achieved in the previous year.

#### **DEVELOPMENT OF DSM BUDGETS, TRC NET SAVINGS TARGETS AND MARKET TRANSFORMATION TARGETS**

CME is opposed to establishing DSM budgets as a percentage of total utility revenue or total distribution revenue. Particularly in light of the rapidly changing energy efficiency landscape in Ontario, coupled with the current economic conditions, CME agrees with EGD that the establishment of DSM budgets through a percentage formula would be arbitrary, and not reflective of market conditions or customer needs.

CME supports the proposed requirement that distributors propose in their DSM plans separate budgets and targets for resource acquisition and for market transformation. CME further supports the requirement that proposed budgets and targets be justified on the basis of historic results of DSM programs in conjunction with market potential studies, and also be consistent with the most recent government policies on conservation. In addition, CME also suggests that proposed budgets and targets should take into consideration the economic conditions, as well as the availability of other energy efficiency programs being delivered by governments, utilities, municipalities and/or industry associations.

Board Staff states in its Discussion Paper that DSM budgets and targets should be the subject of stakeholder review as part of a rate proceeding. CME believes that DSM budgets and targets should be set in the same proceeding, supported by comprehensive evidence and subject to intervenor and Board scrutiny. This can best be achieved through a conventional hearing process.

#### **LOW INCOME CUSTOMER PROGRAMS**

CME participated in the Low Income Stakeholder Conference which took place from September 22 to 25, 2008 (EB-2008-0150). CME believes that many of the issues discussed during that Stakeholder Conference could assist with the development of expanded low income programs with separate DSM budgets, metrics, targets and shareholder financial incentive payments. CME believes that it is appropriate that low income programs and the associated metrics and targets be the subject for rate proceeding allowing for a fulsome testing of the evidence, but that such a rate proceeding should not occur until the low income customer program policy initiative (EB-2008-0150) has concluded.

#### **SHARED SAVINGS MECHANISM**

CME agrees with Board staff that the calculation of SSM be based on the best available information at the time of the evaluation. As pointed out by Board Staff, this will remove the need for estimating and having locked in freeriders and technology savings assumptions from the prior year. This should also result in distributors receiving incentive only for savings that are actually achieved.

CME believes that the SSM reward structure should be proposed by distributors in the same rate proceeding that DSM budgets, TRC targets, and market transformation targets are all considered. Budgets, targets and SSM reward structures are inextricably intertwined and cannot be considered in isolation. In reviewing the SSM, parties should be entitled to challenge not only the proposed formula, but also the anticipated quantum available to the natural gas distributors.

#### **PROGRAM EVALUATION AND AUDIT**

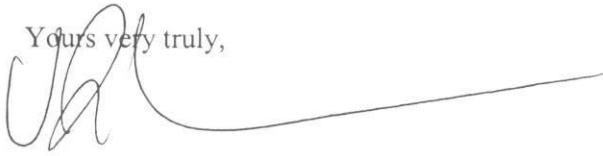
CME has been a member of Union's Evaluation and Audit Committee ("EAC") for 2008 and currently for 2009. CME's experience with Union EAC leads it to conclude that, while not perfect, the EAC increases transparency and allows for increased cooperation between Union and its stakeholders. For this reason, CME is of the view that the EAC should continue to provide advice and maintain transparency.

CME remains of the view that value could be achieved by the Board developing its own audit capability or retaining third party experts to review the DSM data provided by distributors. CME recognizes that this is not achievable prior to 2010. CME urges the Board to assess whether there are alternative ways to complete evaluation and audit of the natural gas distributors' DSM programs. In this regard, Board Staff recognizes that the "role of distributors and undertaking evaluation audits could be reviewed in the future, pending new government policies and conservation". This would appear to be an area that all parties would benefit from further

research. CME suggests that it would be appropriate for the Board to undertake an assessment of how other jurisdictions undertake evaluation and audits of DSM programs.

If you have questions or concerns, please do not hesitate to contact me at your convenience.

Yours very truly,

A handwritten signature in black ink, appearing to read 'VJ DeRose', with a long horizontal line extending to the right.

Vincent J. DeRose  
VJD/kt

- c. All Interested Parties  
Paul Clipsham (CME)

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