Low-Income Energy Network

June 7, 2010

Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, Suite 2700
Toronto, Ontario M4P 1E4

Re: Demand Side Management Guidelines for Natural Gas Distributors (EB-2008-0364 and EB-2008-0150). Review of Demand Side Management (DSM) Framework for Natural Gas Distributors

Dear Ms. Walli,

Enclosed are LIEN's comments on the two consultant reports for which the Board has requested comment - *Review of Demand Side Management (DSM) Framework for Natural Gas Distributors* prepared by Concentric Energy Advisors (Concentric Report), and *"Top Down" Estimation of DSM Program Impacts on Natural Gas Usage* prepared by Pacific Economics Group Research (PEG Report). Our comments on the Concentric Report are organized by the 14 elements of the DSM framework discussed in this Report and we provide general comments on the methodology and findings in the PEG Report.

Thank you for the opportunity to make this submission to the Board. LIEN looks forward to further opportunities for comment to the Board on the implications of the policy work on CDM within the electricity sector and the possible implementation of a province-wide integrated approach for low-income energy consumers at later phases of the consultation process.

Sincerely,

Zee Bhanji
Coordinator
Low-Income Energy Network

c/o Advocacy Centre for Tenants Ontario (ACTO)
425 Adelaide St. West, 5th floor, Toronto, ON M5V 3C1
Phone: 416-597-5855 ext. 5167 1-866-245-4182
Fax: 416-597-5821 Email: bhanjiz@lao.on.ca

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EB-2008-0364 and EB-2008-0150 - Demand Side Management Framework for Natural Gas Distributors

Submission of the Low Income Energy Network (LIEN) on the Concentric Report

The Low-Income Energy Network (LIEN) represents more than 40 member groups across Ontario. As a network representing the intersection of interests related to low-income consumers and energy and sustainability, LIEN's focus is on reducing the energy bills of all low-income consumers, ensuring that all low-income consumers across Ontario have access to conservation programs, technologies and services as well as conservation education, and realizing the environmental, energy and economic benefits associated with the more efficient use of energy. To achieve these objectives, low-income consumers require a comprehensive array of assistance that includes: aggressive conservation and demand management/demand side management (CDM/DSM) defined as providing deep energy savings per low-income consumer and broad consumer participation across the province, consumer protection policies and education, bill assistance, and emergency financial assistance.

In its March 19th letter the Ontario Energy Board (Board) requested comments on two consultants reports commissioned by the Board to further the review of the existing DSM framework for natural gas distributors. This submission represents the LIEN's comments on the report entitled, *Review of Demand Side Management (DSM) Framework for Natural Gas Distributors* (Concentric Report), which was prepared by Concentric Energy Advisors (Concentric). This submission is organized by the 14 elements or issues of the DSM framework discussed in the Concentric Report.

General recommendations

LIEN recommends the gas utilities develop and file 4-year DSM plans with the Board. This timeframe was selected to be consistent with the timeline introduced on the electricity side by the Minister's Directive to the Board pursuant to sections 27.1 and 27.2 of the *Ontario Energy Board Act* (March 31, 2010). This timeframe is also consistent with the timeline presented by Concentric at the April 29, 2010 stakeholder meeting in which Concentric indicated orally that a 3-year plan would be fine, but a 5-year plan would be prudent. The 4-year timeframe proposed by LIEN fits within Concentric's preferred timeframe.

LIEN also recommends that the gas utilities prepare separate 4-year DSM plans for their low-income programs. This recommendation is consistent with the Board's approach for gas utility 2010 DSM plans in which separate DSM and low-income DSM plans were filed. It is also LIEN's recommendation that the budgets for the low-income and non-low-income DSM plans be decoupled so that decisions on the non-low-income DSM plans do not automatically set the budget for the low-income plan as was the case for the 2010 low-income DSM plans. The coupled approach constrained the purview of the low-income discussion in both proceedings. LIEN continues to be of the view that any programs provided to low-income consumers should be multi-faceted, focus on deep measures, and have broad geographic reach. These programs should address effectively the issues and specific barriers to energy efficiency/conservation that this market segment faces.

Element/issue #1 Cost effectiveness tests

Societal Cost Test

LIEN agrees with the use of the Societal Cost Test (SCT) to measure cost effectiveness and overall program benefits including environmental and social externalities. However, LIEN suggests that a scorecard approach would work better for market transformation (currently used by the gas utilities for market transformation programs and works well) and for low-income DSM programs. LIEN prefers the scorecard approach rather than a SCT with a lower threshold (in the range of 0.6-0.75) as recommended by Concentric Report, as the use of this lower threshold suggests that the low-income programs are not beneficial to society, when in fact the SCT just is not an adequate tool for measuring the value of low-income programs to society. Concentric acknowledged the use of a scorecard approach for low-income programs at the April 29, 2010 stakeholder meeting by stating that a scorecard approach makes more sense when developing a separate financial mechanism for low-income programs.

Program Administrator test

LIEN does not agree with the recommendation that the Program Administrator Cost test (PAC) should be used as a test to prioritize DSM programs. The PAC is too narrow to prioritize programs and drives the gas utilities in the wrong direction – towards implementing programs that represent the least cost to them. There needs to be a strategic approach to the marketplace over the 4-year time horizon with the flexibility to adapt to customer demand. Instead LIEN recommends that in order to prioritize programs the utility financial incentive (Shared Savings Mechanism or SSM) needs to be aligned with the objectives of the particular DSM portfolio so that it is in the gas utilities' financial interest to achieve and exceed them. These objectives in the case of low-income DSM should include: reaching all customers, capturing a range of technologies, high participant rates across the province, lower (or at least more manageable gas bills), and the installation of deep measures. One way to align the SSM with these objectives is to weight the SSM to address these objectives, for example, giving deep measures for hard to reach customers a higher weighting.

Program vs portfolio SCT

LIEN does not agree with the recommendation that the cost effectiveness test (SCT) be applied on a program basis. The SCT should not be used as a screen at the program level as not all of the externalities associated with a program may be monetized and leading edge technologies that are not cost effective now may become so over time. Applying the SCT at the program level may lead the gas utilities to bundle their programs to incorporate less cost effective programs into more cost effective ones. This could result in larger and larger programs, which may be difficult for the gas utilities to administer or for affected customer groups to understand. Allowing programs within the portfolio to score less than 1 on the SCT, while ensuring the overall portfolio scores one or better for the SCT, gives the gas utilities flexibility with new technology and program designs. The SCT can be applied at the program level as a check, but should not be used to screen the program from the portfolio. This approach of applying cost effectiveness tests on a portfolio basis is consistent with the approach in E.B.O-169 and E.B.O-188.

The Concentric Report indicates that to address concern expressed by the gas utilities that applying the cost effectiveness test on a program basis discourages them from pursuing more innovative technologies, Concentric believes that concern can be addressed through approval of special funding for research and development efforts and for pilot programs that may not have benefit/cost ratios greater than 1.0, as long as the Board has an opportunity to review the success of those programs within two or three years. LIEN supports the introduction of special funding for research and development efforts and for pilot programs, however still maintains that issues stated above exist and that the SCT should be only applied at the portfolio level for non-low-income programs. LIEN also recommends that the rules for pilot programs contained in the 2006 Guidelines (EB-2006-0021) should remain, but be applicable to the SCT.

Element/issue #2 DSM avoided costs

Avoided costs

LIEN agrees with the recommendation that the gas utilities should continue to be responsible for calculating the avoided costs. LIEN recommends that the gas utilities should work together to develop the avoided costs using a common methodology and timing. It is LIEN's view that the avoided costs calculation should be consistent with the relevant input assumptions for the SCT, and should be updated at least at the beginning and end of the DSM plan time frame (which LIEN recommends should be 4 years). LIEN also recommends that the utilities specify the sources of the input assumptions.

Discount rate

LIEN supports the adoption of a societal discount rate as using such a discount rate is consistent with the adoption of the SCT. The continued use of the gas distributor after-tax weighted average cost of capital would continue to significantly undervalue the conservation benefits. There is not sufficient discussion in the Concentric Report for LIEN to endorse adopting the Concentric Report recommendation to go with a Government of Canada long bond rate. LIEN recommends that the Board should seek further evidence and discussion on the most appropriate discount rate to use for the societal discount rate.

Value for carbon

A value for carbon should be established for inclusion in calculating avoided costs and for the SCT. The price of carbon established by the Board should be based on the $15 to $25 per tonne range recommended by Concentric.. To be a leader, the Board should choose a value for carbon at the higher end of this range; this is consistent with provincial policy with regards to climate change and the reduction of greenhouse gas emissions. In Canada, BC and Alberta have both already set a price of $15/tonne for carbon. Manitoba will introduce a price of $10/tonne for carbon beginning in 2011. In order to change the value of carbon over time beyond the first 4-year plan, LIEN recommends that the Board establish a committee (which would include the Ministry of Energy and Infrastructure) to decide on the methodology for updating the value of carbon.

Element/issue #3 DSM input assumptions/parameters

Common set of input assumptions

LIEN agrees that the gas utilities should continue to develop a common set of input assumptions, which are updated annually to reflect the best available information based on the gas utility Evaluation Reports. Consistent with the 2006 gas guidelines (EB-2006-0021) the input assumptions used to calculate LRAM should continue to be the best available, and those for calculating SSM should be those available during development of the DSM plan.

LIEN also recommends that stakeholder input should be obtained before these input assumptions are finalized, not only through each of the utility's Consultatives, but also with broader stakeholder input.

Element/issue #4 Adjustment factors

Free riders and spillover

LIEN agrees that it should be assumed that free ridership is offset by spillover for both low-income and non-low income DSM programs. This assumption eliminates the time, expense and debate surrounding the determination of free ridership rates for particular programs. It should simplify both the evaluation and audit processes and significantly reduce costs.

Using empirical data

LIEN does not have confidence in either the empirical data or data from other jurisdictions for use in the calculation of free riders, and would prefer, as discussed above, to assume that free riders cancel spillover. There are many factors that go into establishing free ridership rates and many of these factors are difficult to isolate. Free ridership studies are also very expensive to implement. Employing the free ridership percentages from other jurisdictions is also not appropriate as there are many factors which may differ between Ontario and the other jurisdiction selected including: market conditions, weather, the regulatory framework and the program details. Empirical data should be used to develop the strategic plan for DSM and for calculating other adjustment factors such as persistence and measure life.

Attribution, centrality and leverage

LIEN supports Concentric's recommendation of assigning a percentage of credit for designing, developing and delivering joint DSM programs to the gas distributor based on the percentage of total dollars they spend. LIEN also agrees with Concentric's statement that the utilities should be allowed to come forward to the Board to obtain a greater percentage of credit if they can demonstrate that their efforts had a proportionally greater impact than the dollars spent.

However, LIEN believes that the overall Concentric approach to attribution does not go far enough. Credit for centrality and leverage should be added to the equation. Credit for centrality and leverage should be added to encourage the gas utilities to leverage other existing programs and not to design, develop and deliver programs in isolation or that may be duplicative. LIEN believes that the gas and electric utilities in Ontario should be strongly encouraged to cooperate on the delivery of DSM programs whenever possible and supports Concentric's recommendation regarding coordination between the gas and electric LDCs. This encouragement should be done through their incentive mechanisms and the attribution rules related to program savings and other metrics to reward the gas utilities for their cooperation and leveraging of existing programs/relationships.

Persistence

LIEN supports the recommendation that persistence should be determined based on the technical input assumptions and the annual Evaluation Reports. LIEN also agrees that customer surveys should be used to reliably measure persistence. However LIEN would like to clarify the statement "it should not be assumed to be 100%". LIEN agrees that persistence should not automatically be assumed to be 100%, but in cases where persistence is proven to be 100% that value should be accepted.

Element/issue #5 Program design

Contribution to cost effectiveness

LIEN finds the recommendation "DSM programs should be designed to emphasize those measures and technologies which contribute most to cost effective energy savings" to be misleading. Instead, LIEN recommends that DSM programs should be designed to emphasize those efforts that contribute to achieving the most cost effective deep savings for the largest number of participants geographically distributed across Ontario. It is also LIEN's view that DSM programs should not be limited to measures and technologies. Training, behavioural changes and capability building are all important elements of DSM programs that can achieve real gas savings and contribute to the ability of consumers to manage and reduce their gas bills. Historically, these elements have been treated simply as costs in the TRC. They should be given a positive value in the SCT and a positive value in the low-income scorecard.

Surveys for market transformation

LIEN agrees that customer and vendor surveys are useful in estimating the effectiveness of market transformation programs. However, it is LIEN's view that these surveys are just one tool in a set that should be used for estimating the effectiveness of market transformation programs. Other tools may include more traditional approaches to market assessment including percentage of shelf space utilized by a measure, market share, and availability of alternative products. As stated earlier LIEN recommends the adoption of a scorecard approach for screening and evaluating market transformation programs.

Low-income consumers

The design and delivery of DSM programs for low-income customers should follow the principles presented in the Final Report of the Conservation Working Group (CWG) on the proposed short-term (2010) framework for natural gas low-income DSM. These principles should be adopted instead of those stated in the Concentric Report. These principles as written in the CWG report are as follows:

"Low-income natural gas DSM should:

- Be accessible to low-income natural gas consumers[1]
    - Be accessible province-wide in the long term
    - Require no upfront cost to the low-income energy consumer and result in an improvement in energy efficiency within the consumer's residence
    - Address non-financial barriers (e.g. communication, cultural and linguistic)

[1] 'Consumer' includes persons living in residences and pay their energy costs or with energy costs included in their rent.

- Be delivered in a cost-effective manner[2]
- Provide a simple, non-duplicative, integrated and coordinated application, screening and intake process for the low-income conservation program that covers all segments of the low-income housing market including, for example, homeowners, owners and occupants of social and assisted housing, and owners of privately owned buildings that have low-income residents, whether or not these residents are responsible for paying their energy bills
    - Use criteria for determining program eligibility[3]
- Provide integrated, coordinated delivery, wherever possible, with electric LDCs and natural gas utilities[4]; provincial and municipal agencies; social service agencies and agencies concerned with health and safety issues (Encourage collaboration with partners such as private, public and not-for-profit organizations for program delivery
- Be a direct install program
    - Provide a turnkey solution from the perspective of the participant such that the participant deals with one entity for the program which coordinates all elements of delivery
    - Emphasize deep measures that may include, where applicable, energy efficiency, demand response, fuel-switching, customer based generation and renewables
- Provide an education and training strategy
    - Encourage behaviour change of program participants toward a culture of conservation
    - Help low-income energy consumers help themselves

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[2] The traditional measure of cost-effectiveness for natural gas DSM in Ontario has been the TRC test. While the natural gas utilities agree that the principle of cost-effectiveness for low-income programs is an important one, they emphasize that they do not believe TRC is the appropriate measure at this time.

3 These criteria are for the low-income energy conservation program and do not apply to the low-income emergency financial assistance program or any other program.

4 The integrated approach could be expanded to include resource conservation (e.g. water).

    - Help program participants to understand the benefits of participating in the low-income DSM program and conservation, in general
    - Help channel partners attain necessary skills
- Provide on-going measurement of results, feedback and accountability for continuous improvement of the program and identification of best practices
    - Design programs that encourage persistence of energy savings
- Ensure that incentives for utilities are adequate for success
- Have a DSM framework that strikes an appropriate balance between having a stable framework and having the flexibility to respond to changing market conditions
    - Be comprised of multi-year programs
    - Allow for appropriate capacity building within the gas utilities and in the marketplace"

LIEN strongly objects to the principle for low-income programming presented in the Concentric Report that states "developing programs that serve an entire neighbourhood rather than individual customer". LIEN believes that this approach to soliciting participation in low-income DSM programs is no longer appropriate. Low-income residents in Ontario live more and more in mixed income and mixed-use communities rather than low-income areas. Therefore there is not the opportunity to target specific neighbourhoods to capture low-income customers without also serving a high number of free riders.

Concentric stated at the April 29, 2010 stakeholder meeting that the guiding principles for low-income DSM programs related to this neighbourhood approach (principles 1 and 3) are based on the British experience. LIEN believes that the British experience is not applicable to the Ontario setting again because of the greater prevalence of mixed income neighbourhoods in Ontario towns and cities compared with Britain. As stated above LIEN recommends that the principles presented in the Final Report of the CWG on the proposed short-term (2010) framework for natural gas low-income DSM should be adopted.

LIEN also recommends that a detailed screening and intake process should be developed in order to get actual low-income customers to participate in the low-income DSM programs and not non low-income residents who just happen to live next door to or nearby low-income neighbours. The intake and application process developed as part of the OEB's Financial Assistance Working Group Report of LEAP on the proposed framework for low-income emergency financial assistance should be used as a basis for this intake and application process.

There is also an opportunity for the gas distributors to leverage Ministry of Energy and Infrastructure (MEI) programs for First Nations communities. The gas distributors should explore what they can do to assist First Nation communities and to leverage MEI programs and include these opportunities in their low-income DSM plans.

Element/issue #6 DSM budget development

Low-income and non- low-income budget levels and incentives

As stated earlier LIEN recommends that the budgets for the low-income and non-low-income DSM plans be decoupled so that decisions on the non-low-income DSM plans do not automatically set the budget for the low-income plan as was the case for the 2010 low-income DSM plans. This approach limited the purview of the low-income part of the proceeding and therefore constrained the comments that LIEN and other intervenors could express. In addition LIEN recommends that there should be separate line items added to the low-income budget (in 2010 the low-income budget was only for residential customers) to include social housing and landlords/building owners with low-income residents in the private multi-unit rental market. This should be done as approximately 60% of low-income residents live in multi-residential accommodation.

The budget established for low-income DSM programs should not be based on the relative economy compared to other non-low-income programs, but instead should be based on trying to gain greater participation with deeper, more comprehensive energy measures and services. The budget should also be based on the opportunities for gas savings, which are large in low-income residences. The 14% of the residential budget[5] approved in the existing DSM guidelines (EB-2006-0021) for the low-income DSM budget will not effectively address these objectives[6].

Minimum spending level

The Concentric Report recommends an increase in spending on DSM programs in Ontario to between 4% and 6% of utility operating revenues less the cost of purchased gas, and establishing a minimum spending level equal to at least 3% of utility operating revenues less the cost of purchase gas. In question 97 on page 33 of

[5] In the DSM guidelines it was agreed that each utility would spend out of its DSM budget a minimum of $1.3 million, or 14% of each respective utility's residential DSM program budget, whichever is greater. Under the guidelines a utility can expend more than $1.3 million or 14% of its residential DSM program budget if the utility considers it appropriate. The utilities each agreed to increase the $1.3 million spending floor by the budget escalation factor appropriate for the utility (i.e. Enbridge 5%; Union 10%) in each of the second and third years of a three year plan.

[6] In their 2010 low-income DSM plan Enbridge provided a DSM budget of $23.8 million. This amount represents an escalation of 5% from the 2009 budget in accordance with the EB-2006-0021 formula.

Concentric's response to stakeholders' written questions, Concentric recommends that DSM portfolios and budgets should be set to achieve the Province's policy objectives; adding that their recommendation is based on the concept that the DSM budget should be established as a percentage of distribution revenues as a means of governing the speed and near-term ratepayer impacts of achieving the Province's policy objectives.

LIEN supports establishing DSM budgets based on Provincial policy objectives. LIEN also supports the establishment of a minimum spending level on DSM programs based on a percentage of distribution revenues. This minimum spending level for all DSM should be set at 3% of utility operating revenues less the cost of purchased gas in the first year. This minimum should be ratcheted up to 4% in the second year of the 4-year DSM plan, to 5% in the third year, and to 6% in the fourth year[7]. This gives time for the gas utilities to ramp up their DSM programs, both non- and low-income DSM programs.

While LIEN supports setting a minimum spending level based on a percentage of distribution levels, LIEN does not support using a percentage of distribution levels to set the actual DSM budget for the distributor. How much the gas utilities spend beyond this minimum should be based on the objectives in their DSM plan and a bottom up approach to establishing the appropriate budget.

Flexibility and DSMVA

LIEN agrees that the gas utilities should have flexibility in proposing budgets to meet the DSM metrics and targets. The gas utilities should retain the ability to move budget around within the DSM plan to respond to changing market conditions. There should also be some flexibility in the gas utilities' ability to exceed the targets set. Therefore, there should be a DSMVA to serve the low-income DSM programs and one for the non-low income DSM programs. LIEN notes that Concentric stated during the April 29, 2010 stakeholder meeting that flexibility in budgeting is important and that Concentric would endorse continuing the DSMVA.

There should be a financial incentive mechanism for the non-low income DSM programs, one for the low-income DSM programs, and one for market transformation programs. As discussed earlier the scorecard should be used as the vehicle for market transformation and low-income programs. The SSM to be used for non-low income DSM should be modified to better align DSM objectives with utility objectives so that the utilities are clearly and directly incentivized to choose DSM initiatives over other competing uses of utility resources. On slide 35 of the April 29, 2010 stakeholder meeting slide deck, Concentric recommended developing a separate financial incentive mechanism for low-income programs. Concentric also

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[7] In 2007 Canadian gas utilities spent 2.695% of their utility operating revenues less the cost of purchased gas on DSM.

stated orally at the stakeholder meeting that for this mechanism a scorecard approach makes more sense.

Evaluation of programs cycle

LIEN agrees with the recommendation that a more extensive review be conducted on those programs that account for the majority of expenditures and savings and that smaller programs be subject to less rigorous or less frequent scrutiny as this represents a common sense approach to program evaluation. LIEN agrees to this approach as long as over the 4-year DSM program period, all programs, whether large or small are evaluated at some level, and the results included in the Evaluation Report. The exception to this rule may be mature, long-running DSM programs with very little uncertainty associated with them. Such programs are unlikely to benefit significantly from additional evaluation. A gas utility 4-year Evaluation Plan should be established and updated each year to reflect the overall plan to achieve this objective. The gas utilities should work together where appropriate to complete evaluations. Adopting the approaches of offsetting free ridership with spillover and conducting reviews of small programs less frequently and/or rigorously will already result in substantial cost savings. Therefore there is no need to place a limit on the budget for evaluating and monitoring DSM programs.

Evaluation budget

LIEN recommends that utilities develop their own evaluation budgets based on their extensive experience and stakeholder input. A 4-year budget should be established and updated annually. In LIEN's view as discussed above, there is no need to place a limit on the budget for evaluating and monitoring DSM programs. However, if the Board would like to put such a limit in place, then it is LIEN's view that the Concentric Report does not provide adequate information on which to base a determination. More information and consultation would be needed to determine an appropriate limit. LIEN recommends that any limit applied to the amount spent on evaluation be applied at the portfolio level.

Element/issue #7 DSM metrics and targets

Scorecard metrics

As discussed earlier, LIEN recommends a scorecard approach for evaluating both low-income programs and market transformation programs. For low-income programs the metrics may include, but not be limited to: number of deep measures per participant, savings per participant, proportion of participants referred to by social service agencies, increase in number of communities served by deep measures, number of participants referred from conventional DSM programs, distribution of assistance (e.g. owners vs. renters), and efforts to reduce customer bills through education and awareness programs.

Market penetration of Best Available Technologies (BAT)

Although LIEN supports developing DSM metrics that are straight-forward and verifiable, LIEN is concerned that market penetration of BAT as a primary metric is too limited and therefore is not appropriate. A key consideration of low-income DSM programs is not only aggregate results, but also how program participation is distributed among low-income customers, for example, by geography, by market segment etc. As well, with low-income programs the costs and benefits of the program are skewed because low-income customers are hard to access and require direct install programming which is more expensive to deliver, and none of these important considerations are captured in the proposed BAT approach.. Consequently a scorecard approach, including the metrics described above, is much more appropriate for measuring the success of low-income programs.

Element/issue #8 Shareholder incentive mechanism

SSM and scorecard metrics

As stated earlier, LIEN recommends that the utility financial incentive, the SSM, should be preserved for non-low income DSM, but should be better aligned with the DSM objectives of achieving deep savings among a large number of participants across Ontario. The shareholder incentive for the low-income programs and market transformation programs should be based on a scorecard with metrics that achieve those objectives. This is consistent with Concentric's recommendation that a separate financial incentive mechanism should be developed for low-income programs and that a scorecard approach makes more sense for this mechanism. LIEN also recommends that the current approach of receiving an incentive at 50%, 100% and 150% of the scorecard targets should be continued.

LIEN agrees with Concentric's statement (found in the Concentric Report) that penalties for failing to achieve 100% success are not advisable. However LIEN does not agree with Concentric's statement made during the April 29, 2010 stakeholder meeting that if the gas utilities are consistently falling short of targets penalties should be considered. A penalty system will increase the risk profile of DSM and make low-income DSM, which is already a challenge, riskier and less attractive to the gas utilities. If the gas utilities are consistently falling short of targets, then the reasons for this should be fully explored and appropriate changes made to the framework (e.g. budgets, targets, utility incentives, program design/delivery) to ensure that the targets are met. For example, certain market segments may have become saturated or certain key measures may have become more expensive. Penalties would not address such issues. LIEN believes that the focus should be on setting up the DSM framework, including utility incentives, to strongly encourage and enable LDCs to achieve deeper savings for low-income consumers across the province.

Reward levels

LIEN does not agree with the recommendation that the gas distributors should only be rewarded if they exceed the targets for established metrics. It is LIEN's view that the gas utilities should be rewarded in a stepwise fashion if they meet 50%, 100% and 150% of their targets. The same financial incentive structure should be used for the SSM and for the scorecards.

Locking in input assumptions

LIEN supports the preservation of the existing methodology for calculating financial incentives, laid out in the existing gas DSM guidelines (EB-2006-0021), in which the input assumptions for the calculation of the SSM are locked in and are not modified retroactively. LIEN recommends that over the life of the 4-year DSM plan the SSM should be calculated annually based on the input assumptions for that year. If the gas utility obtains better information which demonstrates higher savings, then the utility should be allowed to use this information to update the input assumptions, however they should not be required to update retroactively based on best available information.

Element/issue # 9 LRAM

Decoupling

It is LIEN's position that the existing revenue decoupling true up plans for natural gas utilities should remain in place. These plans have removed obstacles to DSM and have contributed to the success of natural gas utilities in pursuing successful DSM. Should either Enbridge or Union find that additional declining average use protection is required (e.g. Union needs to expand the coverage of their average use tracker to their large volume customers), LIEN would support such expansion in principle to remove remaining obstacles to pursuing aggressive conservation. For further details on LIEN's position on revenue decoupling please see LIEN's submission to EB-2010-0060 Consultation on Distribution Revenue Decoupling.

Best available information

It is LIEN's position that the Lost Revenue Adjustment Mechanism (LRAM) should continue to be used by the gas utilities to address lost revenues due to DSM. LIEN agrees that the best available information should be used by the gas distributors to determine the input assumptions for LRAM. LIEN also agrees that the Board should establish a cut off date by which information must be submitted to calculate the LRAM. This cut off date should be established for administrative ease and clarity for both the Board and the gas utilities.

Element/issue #10 DSM conservation impact evaluation

Independent evaluators and auditors

LIEN does not agree with the recommendation that the Board appoint the entities responsible for conducting the independent program evaluation and the third-party audit of program results. This requirement places an unnecessary administrative burden on the Board and an additional cost and burden on the gas utilities. This approach also makes it unclear which party, the Board or the utility, is ultimately responsible for the program. Control and responsibility for the DSM programs should lie with the gas utilities and regulatory oversight with the Board.

The authors of the Concentric Report state that their proposed approach to evaluation was recommended based on the concerns expressed by stakeholders regarding whether the DSM evaluators and auditors could be considered independent when they are selected by the gas distributors. It is common practice in the business world for companies to select and retain their own financial auditors. The proposed Concentric approach would be analogous to Revenue Canada appointing the financial auditors for companies. LIEN believes that Concentric has not identified sufficient issues with the existing evaluation and audit process to justify this recommendation. This existing process is transparent, independent and allows for stakeholder input. This existing process should be maintained.

Element/issue #11 Filing and reporting

Existing filing requirements

LIEN does not agree with the recommendation that the proposed annual reporting and evaluation reporting requirements be adopted as described in the Draft DSM Guidelines (EB-2008-0346). LIEN recommends the following changes to the Draft DSM Guidelines with regards to filing and reporting:

- **Annual reporting guidelines (section 9.0).** The Draft Guidelines require the preparation of an Annual Report "summarizing the results of the previous year, and at the end of the plan term, addressing results for the entire plan term". The Draft Guidelines go on to prescribe the sections in the Annual Report and their required content (Draft Guidelines, section 9.0, page 40). Requiring an Annual Report is an unnecessary additional report for the gas distributors to prepare. The filing annually of the Evaluation Report, and the financial information for the SSM, LRAM and DSMVA (including the audit) is a requirement of the *Natural Gas Reporting & Record Keeping Requirements* (RRR). This Evaluation Report already contains the information prescribed in the Draft Guidelines for the Annual Report. Since the material to be covered by the Annual Report is already being filed by the gas distributors pursuant to the RRR, the requirement in the Draft Guidelines to file an Annual Report should be eliminated. During the April 29, 2010 stakeholder meeting Concentric indicated that the company saw the Evaluation Report and the Annual Report as the same things, highlighting the overlap between these two reports and providing further evidence that the requirement for an additional Annual Report is not necessary.

- **Filing guidelines (section 10.0)**. The Draft Guidelines harmonize the filing requirements of gas distributors with those of the electricity distributors by providing details of what should be filed to describe each program, the Evaluation Plan, the LRAM, the SSM and to make adjustments to an approved plan. This harmonization is unnecessary as the gas utilities already have the RRR and have been making filings successfully related to the above without the need for more prescriptive guidance. Including these additional filing requirements increases the time and expenditures required by the gas distributors to prepare their filings without adding any additional value. In recognition of the maturity of gas DSM and the gas utilities in successfully delivering it in compliance with Board requirements, and that there are already filing requirements prescribed in the RRR, there is no need for further prescription. Therefore, the filing guidelines in section 10.0 of the Draft Guidelines should be eliminated.

Element/issue #12 DSM stakeholder input

Status quo or improved approach

LIEN does not agree with the recommendation that stakeholder input should continue to be solicited in the manner prescribed in the existing gas DSM guidelines (EB-2006-0021). LIEN also does not agree with Concentric's recommendation that the chair of the Evaluation and Audit Committee (EAC) be shifted from the utilities to the Board. LIEN recommends that the Consultative and EAC process be reexamined. This process has been in place for approximately 10 years and there may be more appropriate ways to obtain stakeholder input. LIEN recommends that Union and Enbridge, in consultation with a broad range of stakeholders, put forward an improved approach to stakeholder consultation for program design and program evaluation as part of their next DSM plan filing. Irrespective of the design put forward by the utilities, LIEN believes that the Consultative and EAC, if they continue, should continue as advisory bodies to the utilities, chaired by the utilities or their independent facilitator, not by the Board or Board Staff.

Element/issue #13 Integration of gas and electric DSM

Encouraging cooperation

LIEN agrees that the gas and electric utilities in Ontario should be encouraged to cooperate on the delivery of DSM programs whenever possible. This encouragement should be done through their incentive mechanisms and the attribution rules related to program savings and other metrics to reward the gas utilities for their cooperation and leveraging of existing programs/relationships.

Element/issue #14 Alternative DSM frameworks

Third party administrators

LIEN strongly supports the continued program administration and delivery of DSM by the natural gas utilities. They have proven themselves to be Canadian and arguably North American leaders in DSM and this leadership should be incentivized through their incentive mechanisms to continue. In particular, the natural gas DSM regulatory framework should ensure that the gas utilities are adequately resourced and incentivized to provide their low-income customers with measures – technologies and services - that keep customer gas bills down and well managed. This includes linking DSM to customer care policies including, for example, disconnection and security deposit policies.

EB-2008-0364 and EB-2008-0150 - Demand Side Management Framework for Natural Gas Distributors

Submission of the Low Income Energy Network (LIEN) on the PEG Report

Introduction

In its March 19th letter the Board requested comments on two consultants reports commissioned by the Board to further the review of the existing DSM framework for natural gas distributors. This submission represents the LIEN's comments on the report entitled *"Top Down" Estimation of DSM Program Impacts on Natural Gas usage* (PEG Report).

The Ontario Energy Board (Board) asked Pacific Economics Research Group (PEG) to investigate whether a top-down econometric approach to estimating gas savings is feasible for Enbridge Gas Distribution (Enbridge) and Union Gas (Union). PEG was asked to evaluate the current data and gas demand models used in Ontario to see whether they could be adapted to top down measurement of changes in gas consumption from utility DSM. The context for this research appears to be that 'calculating reductions in gas usage due to DSM is a cumbersome and complex process' (PEG Report, Executive Summary).

PEG points out that it is not aware of any similar top-down approaches to measuring energy savings, but does indicate that California uses customer-specific data and distinguishes between the energy consumption of customers who are participating in DSM and those that are not. California uses a much more data intensive approach than the top-down methods the Board asked PEG to investigate.

Overall PEG has concluded that its research for the Board did not provide any evidence that a top-down approach can be substituted for the bottom-up methods currently in use in Ontario. PEG points out that more appropriate estimates of savings using a top-down approach could be developed if demand models are estimated separately for participating and non-participating customers. However, PEG indicates that developing detailed customer-specific data would likely entail significant costs, it would take years for enough data to be available to facilitate statistical analysis, and there is no guarantee that this approach would be successful and yield statistically significant results.

Issue 1 – The existing cumbersome and complex process for calculating energy savings

LIEN agrees that the existing process for calculating energy savings could be streamlined. There is significant debate and resources spent around the bottom up calculations of free riders, in particular, as well as other net to gross ratio inputs. However, there are simpler and less costly ways to address this issue than to completely transition to a top-down approach. LIEN recommends (and this is discussed in more detail in our submission on the Concentric Report), that spillover and free ridership be assumed to cancel each other out for both non-low income DSM, and low-income DSM.

Issue 2- Is the top-down approach appropriate?

LIEN is persuaded by the analysis done by PEG that a top-down approach for calculating savings associated with gas DSM is not appropriate. While it may be possible to develop an improved top-down approach to savings measurement in the future, according to PEG this will entail significant costs, will take years and may not achieve significant results. LIEN is of the view that its recommendations dealing with the calculation of net to gross ratios, including free ridership and spillover, will more directly and more quickly address the costly and cumbersome nature of the existing process for measuring savings. While the California approach is interesting, it is costly and data intensive. As a result, LIEN does not support the Board spending more resources on investigating or improving upon a top-down approach. Efforts should be focused on improvements to the existing bottom-up approach.