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**VIA E-MAIL/RESS**

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
27th Floor; 2300 Yonge Street
Toronto, ON M4P 1E4

Dear Ms. Walli

**Re: EB-2008-0346**
**VECC's Comments on the CEA Report**
**"Review of the DSM Framework for Natural Gas Distributors"**

As Counsel to the Vulnerable Energy Consumer's Coalition (VECC), I hereby provide Comments on the CEA Report on behalf of my clients.

*Original signed*

Michael Buonaguro
Counsel for VECC

**EB-2008-0346**
**VECC's Comments on the CEA Report**
**"Review of the DSM Framework for Natural Gas Distributors"**

VECCs comments are structured according to the 14 Issues in the CEA Report.

## Issue #1 – DSM Screening/Cost Effectiveness Test

*Resource Acquisition Programs*

VECC supports the Societal Cost Test ("SCT") approach to DSM screening for "Standard", particularly Mass Market, Resource Acquisition programs. The SCT recognizes that benefits which accrue as a result of DSM initiatives extend beyond the resource costs avoided by the participant.

Including a factor for the value of carbon would be reasonable, provided the calculation of the factor would be based on the primary energy resource mix for Ontario (all fuels).

*DSM Program Prioritization*

VECC supports the use of the Program Administrator Cost ("PAC") test as a guide, but not as a stringent test to prioritize programs.

*Low-Income Programs*

VECC generally agrees with Concentric's recommendation to either

a) utilize a lower SCT threshold (e.g. 0.6) for screening programs directed towards low-income energy consumers. Low-income DSM programs are more resource intensive and costly to deliver, and provide significant non-energy benefits to the participants which are challenging to quantify. Or alternatively

b) use of a score card approach that reflects the particular metrics of the low income and vulnerable consumer group. Similar scorecards should be used by both Union and EGDI *(Preferred*)

*Market Transformation Programs*

VECC supports a Scorecard approach to screen and measure Market Transformation programs. The success of Market Transformation programs cannot be measured based on the energy savings achieved by program participants in any given program year.

**Issue #2 – DSM Avoided Costs**

VECC agrees with Concentric's recommendation for the continuation of the current avoided cost calculation approach. With regard to an appropriate Discount Rate- the Board should specify the methodology and periodically provide an updated rate for both electric CDM and gas DSM.

**Issue #3 – DSM Input Assumptions/Parameters**

VECC supports the principle that input assumptions should be based on the "best available information" at the beginning of the rate year. This means that the input assumptions could only be changed in year if new information meeting a certain materiality threshold was brought to the Board's attention

VECC supports Concentric's recommendation that the Board retain an independent consultant to oversee a common set of input assumptions for use by the gas utilities. The distributors and interested parties should continue to have the opportunity to provide input to this process to ensure the derived values accurately reflect the utility DSM programs.

VECC also endorses the use of identical assumptions, where these are applicable, for both gas DSM and Electric CDM (e.g. water savings).

Concentric's view that the utilities should be permitted to deviate from these input assumptions is appropriate, provided the utility files documentation in support of any revisions to the input assumptions.

To maintain symmetry, this should not be allowed in year except for new information meeting a materiality threshold.

**Issue #4 – DSM Adjustment Factors**

*Free Ridership and Spillover*

VECC disagrees with Concentric's position that the effect of free ridership can be assumed to be offset by the effect of spillover.

The OPA conducts free rider and spillover studies to ensure the accuracy of TRC calculations.

For Union and Enbridge such studies will in future inform the basis of SSM claims and for this reason a shortcut such as proposed by Concentric is inappropriate and unfair to ratepayers.

Although determining these adjustment factors reliably may become more difficult as more providers of DSM and CDM programs enter the Ontario marketplace this goes with the current TRC/SCT incentive structure.

It is not appropriate to apply free rider or spillover input assumptions from other jurisdictions to the DSM programs in Ontario.

*Attribution*

VECC agrees with Concentric's recommendation that the OEB should assign a percentage of credit to the utility based on the percentage of total dollars spent designing, developing and delivering joint DSM programs. Although the amount of money contributed by an individual partner is not necessarily indicative of the overall value that partner brings to the relationship, it is a reasonable proxy.

If the partners are ratepayer funded entities and agree on a different split of TRC/SCT then ratepayers would not pay twice. But if the partners are government(s), then there could still be an inappropriate assignment of costs and benefits.

The percentage of savings claimed by the utility should be determined proactively rather than retroactively.

*Persistence Factors*

VECC supports inclusion of a persistence factor for all mass market measures. These types of measures can be removed by the customer or may not be installed in the first place. For these types of measures, studies can be done based on historical data/surveys to determine appropriate persistence factors for a given program year.

In VECC's view, there is a dividing line for low income programs where measures are installed by the utilities (or their contractors) and in this case the main issue is whether the input assumptions regarding measure life are appropriate. Even determining this is complex due to the turn over the housing stock. However, measure life should be the primary determinant for installed measures and persistence studies are not required.

## Issue #5 – DSM Program Design

*DSM Program Design*

VECC agrees that the gas utilities are in the best position to determine which DSM programs and measures will provide the greatest benefit to ratepayers within the budgets approved by the Board.

However it is important for the Utilities to get stakeholder input at the design stage more than has been the case in the past.

This is particularly critical for all targeted programs in general and for Low Income programs in particular.

The DSM framework should include a balance between resource acquisition and market transformation programs.

*Targeted Programs for Low-Income Energy Consumers*

VECC supports the guiding principles put forth by Concentric in providing DSM programs for low-income energy consumers. It is acknowledged that Low-income energy consumers face many barriers (domicile, income language and age etc.) in accessing DSM programs. VECC agrees that fostering partnerships with SHSC and other local community organizations is an appropriate strategy in reaching these “hard to reach customers”. It is also critical that the large segment of low income families living in rental accommodation (including high rise) be targeted.

The best way to do this is for joint programs with the OPA and local electric utilities.

*Market Transformation Programs*

Market Transformation programs should be measured using metrics specific to the individual program. This would include data from customer and vendor surveys, among other indicators.

**Issue #6 – DSM Budget Development**

*DSM Budgets*

VECC notes the recommendation for the utilities to propose an overall budget between 4.0% and 6.0% of regulated utility revenues less the cost of purchased gas.

VECC has two major concerns:

a) the impact of this increase on ratepayers, unless there is a transition that reduces rate impacts, and

b) that the ramp up of budgets and programs for vulnerable consumers matches the increase in overall budgets.

It is highly unlikely that the second of these concerns can be addressed in the short term. If it isn't addressed, there will be an increase in energy poor above what would have occurred due to general utility cost increases. VECC has addressed this concern to the Minister of Energy and Infrastructure and urged that assistance programs match Utility cost increases.

VECC agrees that it is appropriate to establish a range of 3% to 5% of the total budget for evaluation and verification, However as noted later VECC supports the suggestions that

a) the OEB providing greater oversight of Audit and Verification especially given current or similar incentives, and
b) Stakeholder engagement in the process is at least as rigorous as at present.

**Issue #7 – DSM Metrics and Targets**

*Best Available Technologies*

VECC agrees that for general Mass market programs BAT should be the basis setting input assumptions. However we do not understand how this would work for custom programs, unless this is part of the design --using information from other jurisdictions that are sufficiently similar to the Ontario gas market.

*Low-Income Programs- Metrics*

As noted earlier, VECC supports a scorecard approach to measure the success of low-income DSM programs. This approach will likely place a higher priority on deep measures, such as home weatherization, that produce benefits some of which are difficult to quantify.

**Issue # 8 – Shareholder Incentive Mechanism**

VECC does not disagree that Shareholder incentives are required to encourage Investor owned utilities to pursue DSM programs.

However, incentives should be structured to recognize the difficulty of attaining targets rather than just generation of TRC/SCT. Incentives should be calculated differently for Resource Acquisition Programs and for Market Transformation and Low Income Programs that use a Scorecard approach, In addition incentives for Low income programs should recognize the inherent public good in these programs.

VECC agrees with Concentric that for Resource Acquisition Programs Incentives should kick in at, or close to, the target TRC/SCT level.

**Issue #9 – Lost Revenue Adjustment Mechanism ("LRAM")**

VECC strongly prefers the current approach to calculating LRAM (utilities recover fixed distribution costs through both a fixed and a variable rate, which is set based on forecasted consumption including changes in energy efficiency) rather than moving to a revenue decoupling approach in which a fixed rate is applied.

**Issue #10 – DSM Conservation Impact Evaluation**

VECC does not fully agree with Concentric's recommendation that the Board appoint and oversee the Auditors responsible for conducting the independent program evaluation and third-party audit of program results. The major concern relates to the degree of stakeholder engagement that will occur relative to the current approach of the audit and evaluation being undertaken by consultants appointed by the utility and performed in consultation with the EAC.

For the electric utilities, independent evaluation was a necessary expedient, but in that case there was no opportunity for an EAC and in VECC's view many of the Audits and Evaluation reports were flawed or biased in favour of the utility. That is not the case for the gas utilities given engagement by the EAC.

**Issue #11 – Filing and Reporting Requirements**

VECC agrees with Concentric's determination that the current Annual Report contains the appropriate level of information for the Board and stakeholders to evaluate and assess the *currently approved* DSM programs.

However with the advent of Market Transformation and Low Income Programs additional reporting requirements are necessary and draft reports should be reviewed with stakeholders before being accepted by the Board.

**Issue #12 – DSM Stakeholder Input**

VECC agrees with Concentric that the current OEB –sanctioned approach to stakeholder engagement –the Consultative and EAC is appropriate for current programs.

However, a move to targeted MT programs and Low Income programs will necessitate greater engagement by the appropriate stakeholder groups.

**Issue #13 – Integration of Gas and Electric DSM**

Under the GEA and Regulations, the landscape for Electric CDM is once again to change with a new generation of OPA province-wide programs and local LDC programs, The Board should ensure all utilities under its purview cooperate to a greater degree in than in the past.

Strong oversight and clear attribution rules are one of the requirements.

It is particularly critical that multiple service providers are prevented from targeting the Low Income segments of unless they combine forces and resources to give more coverage and in-depth programs.

**Issue #14 – Alternative DSM Framework(s)**

VECC agrees that for standard residential program the current Ontario DSM framework should not be substantially changed but rather “tweaked” for example in the area of incentives.

However the introduction of Market Transformation and targeted Low income programs will necessitate a fundamental review and development of new approaches.

For the Low Income targeted programs the work done by the LEAP Conservation Working Group should be revisited as soon as the Governments anticipated Low Income assistance program is known.