



June 7, 2010

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

Attention: Ms. Kirsten Walli, Board Secretary

**Re:** EB-2008-0346 – Union’s comments on the “Review of the DSM Framework for Natural Gas Distributors” Report

Dear Ms. Walli:

Please find attached Union’s submission on the report entitled “Review of the Demand Side Management (“DSM”) Framework for Natural Gas Distributors” prepared by Concentric Energy Advisors.

In its submission, Union has provided its vision and view of the requirements for the next generation DSM framework and its comments on the Concentric Report. There has been significant collaboration with Enbridge Gas Distribution which has resulted in alignment around the responses to the various issues addressed in the Concentric Report.

If you have any questions with this submission, please contact me.

Yours truly,

*[original signed by]*

Chris Ripley  
Manager, Regulatory Applications

Cc: EB-2008-0346 Intervenors  
Crawford Smith (Torys)

1    **INTRODUCTION**

2    This is Union Gas Limited's ("Union") submission in response to the report entitled "Review of  
3    the Demand Side Management ("DSM") Framework for Natural Gas Distributors (the "Report")  
4    prepared by Concentric Energy Advisors ("Concentric") for the Ontario Energy Board ("OEB").

5    This submission is organized under the following headings:

- 6           1. Union's Vision and view of Stakeholder Requirements for the Next Generation DSM  
7            Framework; and,  
8           2. Union's Comments on the Concentric Report.

9  
10   **1. UNION'S VISION AND VIEW OF STAKEHOLDER REQUIREMENTS FOR THE NEXT**  
11    **GENERATION DSM FRAMEWORK**

12    **Union's Vision for the Next Generation DSM Framework**

13    Ontario's two main natural gas LDCs have an overarching goal of establishing themselves as  
14    industry leaders in energy conservation by helping customers achieve deep and lasting energy  
15    savings. Through Union's experience in delivering DSM programs in Ontario, Union has gained  
16    extensive knowledge of DSM customer needs, DSM technologies and approaches that work in  
17    the marketplace. Promoting best available technologies does not necessarily address the energy  
18    requirements of Union's customer base. To maximize the energy savings potential, there must  
19    be a move beyond single technology based resource acquisition programs to a broader range of  
20    initiatives including:

- 1       • Programs that support lost opportunity markets and “deep savings” through an integrated,  
2       comprehensive and long term approach to meet customers’ energy needs. (e.g. building  
3       optimization, whole house retrofit);
- 4       • A customer centric approach that will build a conservation culture within the business  
5       customer’s organization. (e.g. performance based efficiency, monitoring and targeting,  
6       behaviour based energy conservation initiatives);
- 7       • Capacity building to develop the necessary infrastructure to further support long term  
8       energy gains such as training, education and creating an energy conservation workforce  
9       in Ontario;
- 10      • Moving from looking at isolated building efficiency opportunities to exploring the next  
11      level of efficiency opportunities through integrated energy planning at the neighbourhood  
12      and community levels;
- 13      • A commitment to aggressively commercialize new technologies and market approaches  
14      to energy efficiency through research and development;
- 15      • A continuation and expansion of Market Transformation programs that enable a  
16      permanent change in the market; and,
- 17      • Continued support to low-income energy consumers through programming efforts  
18      specifically designed for that market.

19

20    Union has experience in the above noted advanced DSM activities and believes in their potential  
21    to further advance conservation in Ontario. Union’s current direct involvement in these activities  
22    has been limited because of the constraints of the present DSM framework (e.g. Using TRC as a

1 measurement of success limits the focus on “deep measures” in low-income programs and  
2 restricts the opportunity to build capacity in the province). To achieve ambitious goals, a DSM  
3 regulatory framework that allows for a broader set of activities is required. In Union’s view,  
4 Ontario does not need a entirely different DSM framework. The current DSM framework and  
5 approach in Ontario has been very successful from both Union’s and its customers’ perspectives.  
6 The current DSM framework does not require a major overhaul. In fact, it is Union’s view that it  
7 only requires “fine-tuning” so as to provide utilities with greater flexibility in program  
8 development and the ability to further extend the DSM programs into relevant sectors such as  
9 Low-Income or Development Programs.

#### 10 **Stakeholder Requirements for the Next Generation DSM Framework**

11 When considering the next generation of DSM, Union has drawn on the body of experience  
12 developed in Ontario beginning with EBO 169 and has taken into account the needs of the  
13 Province, the Board, customers, intervenors and the utilities. The specific requirements of each  
14 of these stakeholders was not fully addressed in the Concentric Report. What Union considers to  
15 be the key requirements of each of Ontario’s DSM stakeholders are presented below.

16 The Province requires:

- 17 ○ The development of a DSM framework that will enable and encourage gas  
18 utilities to deliver on results and help to meet Provincial objectives (e.g. Natural  
19 Gas DSM plans should help the Province meet its GHG reduction targets. Recent  
20 International reports state the greatest source of GHG reductions around the world  
21 will come through energy efficiency programs.

- 1           ○ Transparency and sufficient information to report on the progress towards
- 2           Provincial goals.
- 3           ○ A DSM framework that will enable and encourage the gas utilities to work
- 4           collaboratively with the electricity sector to maximize the benefits of conservation
- 5           towards achievement of Provincial conservation goals.

6   The Board requires:

- 7           ○ Transparency and sufficient information to provide regulatory oversight.
- 8           ○ A DSM framework that will enable the Board to guide utilities to meet provincial
- 9           policy objectives and the OEB's legislated regulatory objectives.
- 10          ○ Simplicity of administration to minimize time for proceedings and day to day
- 11          management.

12   Customers require:

- 13          ○ Unbiased advice on energy efficiency products and services.
- 14          ○ Consistency and continuity in program delivery.
- 15          ○ Simplicity of program access.
- 16          ○ Incentives that significantly motivate conservation-related investment decisions.
- 17          ○ Assurance that all customer groups will have access to utility DSM programs.

18   Intervenors require:

- 19          ○ Transparency and sufficient information to ensure that their constituents are being
- 20          treated fairly.
- 21          ○ Sufficient information to instil confidence that program results are accurately
- 22          measured and clearly reported.

- 1           ○ Assurance that their constituents will have access to utility DSM programs and  
2           fair allocation of related costs across rate classes.

3 Utilities require:

- 4           ○ A stable environment for program management and delivery, annual reporting  
5           and incentive mechanisms.
- 6           ○ Simplicity of framework elements and administration.
- 7           ○ Sufficient financial mechanisms and incentives that supports DSM as a priority  
8           within the utility business activities.
- 9           ○ Autonomy to run the DSM programs within the agreed rules.
- 10          ○ Sufficient budget to meet provincial and OEB objectives.
- 11          ○ Flexibility to optimize the DSM program portfolio within the term of a multi-year  
12          plan.

13

14 The next DSM framework must address the needs of all stakeholders in order to achieve the  
15 greatest possible energy reductions in Ontario.

16

## 17 **2. UNION'S COMMENTS ON THE CONCENTRIC REPORT**

18 Concentric's Report provides a comparative review of 14 DSM framework issues across selected  
19 North American and other jurisdictions. The 14 issues are interrelated. They cannot be viewed  
20 in isolation from each other; changing any one issue may impact or result in changes to one or  
21 more of the other issues.

1 The following responses to Concentric's recommendations represent Union's position on each of  
2 the 14 DSM framework issues.

3 **Issue #1 – DSM Cost Effectiveness Test**

4 Resource Acquisition Programs

5 Union supports the Societal Cost Test ("SCT") approach to DSM screening for resource  
6 acquisition programs. The SCT recognizes that benefits which accrue as a result of DSM  
7 initiatives extend beyond the resource costs avoided by the participant. Under Concentric's  
8 recommendations the value of carbon would be included as a benefit in the calculation of the  
9 SCT, with additional benefits included as they are quantified. The Concentric report supports the  
10 delivery of programs that have negative SCT benefits through a Board approved special funding  
11 mechanism. Union supports a program and portfolio approach to the SCT, however, programs  
12 that do not have a SCT greater than 1.0 should still be eligible for inclusion in Union's DSM  
13 portfolio.

14

15 Low-Income Programs

16 Union supports the recommendation to utilize a lower SCT threshold for screening programs  
17 directed towards low-income energy consumers. Low-income DSM programs are more resource  
18 intensive and costly to deliver, and provide significant non-energy benefits to the participants  
19 which are challenging to quantify. Concentric's recommendation supports a move towards a  
20 more holistic and inclusive approach to low-income energy consumers.

21

22

1 Market Transformation Programs

2 Union disagrees with using SCT to screen Market Transformation programs. Just as the success  
3 of Market Transformation programs cannot be measured by the number of program participants,  
4 it is not appropriate to screen these programs based on the energy savings achieved by program  
5 participants in any given program year. A Market Transformation program may require market  
6 intervention in the initial years that focuses on the implementation of a technology/process rather  
7 than encouraging immediate take-up in the market. As Market Transformation programs are not  
8 formulaic in nature, each program must be assessed on its own merits based on the specific  
9 objectives of the program, which may include elements such as increased customer awareness or  
10 availability within the supply chain. The utilities should bring forward Market Transformation  
11 programs as part of their multi-year Plan filing, including scorecard performance metrics.

12

13 DSM Program Prioritization

14 Union supports the use of the Program Administrator Cost (“PAC”) test as a guide, but does not  
15 support its stringent implementation to prioritize programs. Union requires the ability to  
16 prioritize programs based on additional market factors to maximize DSM opportunities on an  
17 ongoing basis. As Concentric has acknowledged, “the utilities are in the best position to  
18 determine which DSM programs and measures will meet the specific DSM metrics and targets  
19 that have been established by the Board because they have more interaction with customers and  
20 they understand how customers respond to various programs.”<sup>1</sup>

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<sup>1</sup> Concentric Energy Advisors. March 19, 2010. *Review of Demand Side Management (DSM) Framework for Natural Gas Distributors*. Report prepared for the Ontario Energy Board (“Concentric Report”) pp. 96.

1 The PAC test is not applicable to custom programs, which have historically made up the majority  
2 of Union's DSM results. Strict application of the PAC test does not ensure DSM programs  
3 target the potential opportunities available in the market, or that energy savings are delivered to  
4 all rate classes. Program flexibility is required to maximize energy savings within each program  
5 year, and to maintain a sustainable mix of DSM programs and established market relationships  
6 within the term of the DSM Plan.

### 7 **Issue #2 – DSM Avoided Costs**

8 Union supports Concentric's recommendation for the continuation of the current avoided cost  
9 calculation approach. The current process strikes an appropriate balance between precision and  
10 stability and ensures that variable costs are captured accurately. As avoided costs are long-term  
11 projections, updating the fixed cost component on a multi-year basis which aligns with the  
12 duration of the DSM framework will provide the required level of accuracy for all stakeholders.  
13 The same avoided costs should be utilized for program planning and the measurement of DSM  
14 results.

15

### 16 **Discount Rate**

17 The discount rate for gas DSM programs should align with the discount rate in the electricity  
18 sector. Alignment of the discount rate will eliminate inequalities for screening purposes in  
19 quantifying the stream of future resource savings between CDM and DSM programs, and will  
20 ensure conservation measures are comparably evaluated across fuels. Union further suggests  
21 that using a benchmark would be appropriate.

22

1 Value of Carbon

2 The establishment of a value for reduced carbon emissions is appropriate. This value should be  
3 established in consultation with the utilities and industry experts based on the projected current  
4 and future value of avoided emissions, and proposed by utilities in their multi-year Plans.

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

6 Union supports Concentric’s recommendation that the Board retain an independent consultant to  
7 oversee a common set of input assumptions for use by the utilities. The distributors and  
8 interested parties should continue to have the opportunity to provide input to this process to  
9 ensure the derived values accurately reflect the utility DSM programs. Union further endorses  
10 Concentric’s view that the utilities should be permitted to deviate from these input assumptions  
11 provided the utility files documentation in support of any revisions to the input assumptions.  
12 This allows the utilities to respond to new program opportunities as they arise.

13

14 Union supports Concentric’s recommendation that input assumptions, including avoided costs,  
15 should be not be changed retroactively for a prior program year – i.e. they should be locked in  
16 for the purposes of screening and calculating the program results and incentive. Union further  
17 agrees with the assertion put forward by Concentric that “There is ample opportunity to vet these  
18 assumptions in advance, with the benefit of providing greater certainty for program planning and  
19 implementation.”<sup>2</sup> Further, any adjustments as a result of new information or evaluation  
20 research should be applied to the next full program year. This will ensure the utilities are able to

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<sup>2</sup> Concentric Energy Advisors. May 20, 2010. *Review of Demand Side Management (DSM) Framework for Natural Gas Distributors: Response to Stakeholders’ Written Questions*. Report prepared for The Ontario Energy Board, (“Concentric Written Response”) pp. 19.

1 adequately plan and provide program continuity for customers. Program changes that are  
2 necessitated by changing input assumptions without adequate lead time and notice to the  
3 marketplace will undermine the utility DSM programs and discourage future program  
4 participation.

5 **Issue #4 – DSM Adjustment Factors**

6 **Free Ridership and Spillover**

7 Union supports Concentric's position that the effect of free ridership can be assumed to be offset  
8 by the effect of spillover. Free rider and spillover studies are resource intensive, complex, and  
9 fraught with uncertainty and corresponding debate. Concentric's position will greatly simplify  
10 and streamline DSM program planning and evaluation. As confirmed by Concentric,  
11 determining these adjustment factors reliably will become more difficult as more providers of  
12 DSM and CDM programs enter the Ontario marketplace<sup>3</sup>. To date the utilities have not been able  
13 to measure all of the spillover attributable to their programs which would potentially artificially  
14 reduce program results.

15

16 It is not appropriate to apply free rider or spillover input assumptions from other jurisdictions to  
17 the DSM programs in Ontario. As noted by Concentric, input assumptions, including free-  
18 ridership rates, vary from jurisdiction to jurisdiction and are therefore not reliable indicators of  
19 program results when transferred from one jurisdiction to another<sup>4</sup>.

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<sup>3</sup> Concentric Written Response, pp. 22.

<sup>4</sup> Concentric Written Response, pp. 14.

1 Attribution

2 Union disagrees with Concentric's recommendation that the OEB should assign a percentage of  
3 credit to the utility based on the percentage of total dollars spent designing, developing and  
4 delivering joint DSM programs. The amount of money contributed by an individual partner is  
5 not necessarily indicative of the overall value that partner brings to the relationship. Determining  
6 the contribution of a gas utility based solely on dollars spent ignores the significant experience  
7 and knowledge brought to a partnership by the gas utilities and the value of their long standing  
8 and well established relationships in the marketplace. Initiatives where the natural gas utilities  
9 partner to inexpensively increase the participation rates for programs funded by other entities  
10 would not be pursued under this attribution methodology.

11  
12 Further, any requirement for the utilities to provide evidence to the Board to support a percentage  
13 of attribution greater than that determined on the basis of the amount spent by the utility  
14 represents a significant barrier to joint programs, as the savings claimed by the utility would be  
15 determined retroactively. This recommendation contradicts Concentric's recognition of the  
16 benefits of providing greater certainty for program planning and implementation. Without  
17 knowing the level of savings which would be claimed through a program, Union would not be in  
18 a position to enter into partnership agreements. The attribution of savings derived from a joint  
19 program should be established prior to program planning and implementation. Attribution is  
20 most appropriately determined by the parties to the agreement, recognizing that the total value of  
21 resource savings claimed by all regulated parties should obviously not exceed the benefits  
22 generated by the program.

1 Persistence Factors

2 Union does not support the mandatory inclusion of a persistence factor for all measures.

3 Currently, persistence studies are proactively conducted on low-cost measures which have been  
4 distributed to customers. It is recognized that these particular measures are unique as they can be  
5 removed by the customer or never installed in the first place. For these types of programs, it is  
6 therefore appropriate to determine persistence factors. The utilities currently contract third party  
7 independent evaluators to conduct detailed primary research with a high degree of statistical  
8 confidence to determine appropriate persistence factors for a given program year. For  
9 technologies that would not reasonably be uninstalled prior to the end of their useful life,  
10 persistence savings are already captured by “measure life”. To go beyond this level of detail  
11 would be complex and provide little value.

12 **Issue #5 – DSM Program Design**

13 DSM Program Design

14 Union supports Concentric’s statement that the gas utilities are in the best position to determine  
15 which DSM programs and measures will meet the specific metrics that have been established by  
16 the Board. The utilities have established relationships in the DSM market and understand how  
17 customers respond to various programs. For this reason, Union requires the flexibility within  
18 the plan period to adjust programs and the portfolio balance, and to introduce new programs to  
19 respond to changing market conditions.

20

21 The DSM framework should continue to allow for resource acquisition and market  
22 transformation programs, but should also incorporate the requirement for an additional class of

1 programs which allow for the development of market capability for energy efficiency, referenced  
2 within this document as Development Programs. Through its experience in the marketplace  
3 Union has identified a market need to further energy savings through programs where the  
4 objective is not to promote specific technologies but rather to foster the development of the  
5 energy conservation workforce in Ontario and conduct segment support initiatives. Development  
6 programs may include partnerships with Ontario universities and colleges, the training of  
7 delivery partners, contractors, and builders, as well as strategic consultation with delivery  
8 channels or assistance to government-supported codes and standards development. As this class  
9 of program is not formulaic in nature, it should be measured under a scorecard approach, with a  
10 separate incentive, where the metrics are tailored to the objectives and stage of maturity of the  
11 program.

12

13 Union supports Concentric's recommendations on lost opportunity markets and "deep savings"  
14 programs. These opportunities represent cost effective initiatives to significantly reduce energy  
15 consumption. Union agrees with Concentric that the Board should allow the utilities to modify  
16 their DSM Plan in order to pursue these opportunities as they arise.

17

#### 18 Low-Income Energy Consumers

19 Union supports the guiding principles put forth by Concentric in providing DSM programs for  
20 low-income energy consumers. Low-income energy consumers face barriers in accessing DSM  
21 programs which are unique to this customer group. Union agrees that fostering partnerships with  
22 local community organizations is an appropriate strategy in reaching these customers. It should

1 be noted that this is already a fundamental element of the current utility low-income programs.  
2 A holistic approach is required to ensure that this customer group receives the required programs  
3 and education to result in meaningful reductions in energy usage. Key barriers to the utility low-  
4 income programs in the past have been the limited number of contractors in the market who have  
5 the experience and knowledge to work on low-income DSM programs, the use of TRC for  
6 screening and measurement, and the budget available for deep measures such as home  
7 weatherization.

8

#### 9 Market Transformation

10 It is not appropriate for Market Transformation programs to be measured using a savings-based  
11 measurement approach, such as SCT. Market Transformation programs should be assessed on an  
12 individual basis using metrics specific to the individual program. Union supports Concentric's  
13 recommendation that the Board utilize a combination of customer and vendor surveys, among  
14 other indicators, to estimate the effectiveness of Market Transformation programs, recognizing  
15 that precise estimates of savings are not attainable for these types of programs. Union further  
16 supports Concentric's confirmation that a scorecard approach may be effective for measuring the  
17 effects of these programs<sup>5</sup>. While market penetration may be a metric of a balanced scorecard, it  
18 should not be the sole indicator of the program's success.

19

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<sup>5</sup> Concentric Written Response, pp. 49.

1 **Issue #6 – DSM Budget Development**

2 DSM Budget

3 Union supports the recommendation for the utilities to propose an overall budget between 4.0%  
4 and 6.0% of regulated utility revenues less the cost of purchased gas. The utilities should be  
5 permitted to propose a higher budget for Board approval where market opportunities warrant  
6 additional DSM expenditures. Union further agrees that it is appropriate to establish a range of  
7 3% to 5% of the total budget for evaluation and verification. While program evaluation and  
8 monitoring are important elements of DSM administration, the primary focus should be on  
9 designing, developing and delivering DSM programs and measures that achieve the policy  
10 objectives established by the Board.

11

12 Union agrees with Concentric's endorsement of the current DSM variance account as an  
13 effective method for reconciling the difference between actual DSM spending and budgeted  
14 amounts. Union further supports the recommended continuation of an over-spending structure to  
15 allow the utilities to continue the momentum of a program within a given program year, with the  
16 incremental funds utilized on variable program expenditures.

17

18 Budget Flexibility

19 Union supports Concentric's recommendation that the utilities should be provided flexibility in  
20 proposing budgets, as the utilities have more interaction with customers and accordingly are  
21 better positioned to understand how customers will respond to various programs. It is also  
22 reasonable for the utilities to establish separate budgets for resource acquisition, market

1 transformation, and low-income programs, as well as the additional programs previously noted  
2 that would require a scorecard approach to measurement.

3

4 There should be sufficient flexibility to allow the utilities to adjust the budgeted program  
5 allocations to respond to changing market conditions or new information. Union agrees with  
6 Concentric that there are benefits from a multi-year budget approach in terms of program  
7 planning and delivery.

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

##### 9 Best Available Technologies

10 Union strongly disagrees with Concentric’s view that market penetration of Best Available  
11 Technologies (“BAT”) should be used as the metric for measuring program success. As  
12 Concentric has stated, BAT may be inapplicable where the DSM measures are unique or  
13 represent custom solutions. This concern describes a significant component of Union’s DSM  
14 portfolio particularly in the commercial and industrial markets. Concentric has further admitted  
15 that in those situations, a bottom up measurement approach (as exists now) should be used. In  
16 Union’s view, bottom up savings results should be used to measure the success of resource  
17 acquisitions programs.

18

19 Concentric’s proposed approach would also greatly complicate the measurement process.  
20 Stakeholder discussions would shift from deemed savings to attribution and level of confidence  
21 in the penetration results. The primary research required to establish the penetration baseline, as  
22 well as ongoing measurement, would result in significant costs without the assurance of

1 increased accuracy or benefit. Concentric had not considered the level of accuracy or margin of  
2 error that would be achievable for the market penetration rates recommended in their report<sup>6</sup>.  
3 Union can therefore not support Concentric's assertion that through concentrating on market  
4 penetration, the Board can more accurately measure and evaluate the success of DSM programs<sup>7</sup>.  
5 To Union's knowledge, market penetration of BAT has not been effectively implemented for the  
6 purpose of measuring DSM results to determine the program administrator incentive for resource  
7 acquisition programs in any other jurisdictions.

8

9 Further, it is Union's view that the use of BAT would lead to lost opportunities in the market, as  
10 the appropriate technology for a given situation is dependent on a number of factors including  
11 available budget and the application requirements. The use of BAT does not promote a  
12 comprehensive approach to energy conservation within a facility or recognize that the best  
13 solution for a given application is dependent on the specific requirements of the facility.

14

15 "Top Down" Measurement of Reductions in Gas Consumption

16 Based on the conclusions contained in the report completed by Pacific Economics Group  
17 ("PEG"), "Top Down" Estimation of DSM Program Impacts on Natural Gas Usage<sup>8</sup>, reductions  
18 in gas consumption per customer attributable to a program does not appear to be a reliable  
19 method to measure DSM program results. PEG concluded that their research did not provide any

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<sup>6</sup> Concentric Written Response, pp. 48.

<sup>7</sup> Concentric Written Response, pp.108.

<sup>8</sup> Pacific Economics Group Research. February 2010. "*Top Down*" Estimation of DSM Program Impacts on Natural Gas Usage. Report prepared for The Ontario Energy Board

1 “top down” evidence that is definitive enough to substitute for the bottom-up methods currently  
2 used in Ontario’s existing gas DSM framework.

3

#### 4 Resource Acquisition Programs

5 The appropriate metric to measure the results from resource acquisition programs is a bottom-up  
6 approach based on the pre-established input assumptions, such as SCT results or m<sup>3</sup> savings of  
7 natural gas and water over the life of the measure. As is the case for program screening, input  
8 assumptions should be locked in prior to the program year to measure the results of the DSM  
9 programs. Market penetration is not an appropriate measurement metric for resource acquisition  
10 as it is not applicable in many applications and would lead to increased complexity in the  
11 measurement process. Where it is appropriate to promote objectives beyond resource savings  
12 alone, such as the equitable access of DSM programs to allow a broad range of ratepayers to  
13 participate in some way, or to promote lost opportunity and “deep savings” resource acquisition  
14 programs, it may be appropriate to utilize a scorecard measurement approach. This approach  
15 allows flexibility in the alignment of utility incentives with policy objectives.

16

#### 17 Low-Income Programs

18 A scorecard approach should be used to measure the success of low-income DSM programs.  
19 This approach can be used to place a higher priority on deep measures, such as home  
20 weatherization, that produce benefits which are very difficult to quantify (e.g. increased  
21 comfort), and to promote education and awareness metrics. This approach aligns utility  
22 incentives with the priorities of low-income DSM programs.

1 Market Transformation and Development Programs

2 As indicated above, Market Transformation and Development programs do not lend themselves  
3 to formulaic measurement. Market Transformation and Development programs should be  
4 measured with a balanced scorecard. The metrics for individual programs should be established  
5 by the utility, with the Evaluation and Audit Committee (“EAC”) in an advisory capacity, and  
6 filed with the Board.

7 **Issue # 8 – Shareholder Incentive Mechanism**

8 Shareholder incentives are an appropriate mechanism to encourage utilities to pursue DSM  
9 programs. The utilities should be allowed to apply for separate incentives for four different  
10 types of DSM programs: 1) Resource Acquisition Programs; 2) Market Transformation  
11 Programs; 3) Low-Income DSM Programs; and 4) Development Programs. The incentive  
12 mechanism structure should be transparent and straightforward for all stakeholders and should be  
13 adequate to motivate the utilities to drive DSM results.

14

15 Concentric’s assertion that the current incentive structure does not appear to provide sufficient  
16 impetus for utilities to go beyond the generic solutions to energy efficiency<sup>9</sup> has no factual  
17 foundation. A review of Union’s DSM results confirms that significant resource savings have  
18 been achieved over the term of the current DSM framework. In fact, Concentric elsewhere states  
19 that there is no evidence to suggest that existing DSM programs are not achieving the Board’s  
20 policy objectives<sup>10</sup>. The screening and measurement approach outlined in the next generation

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<sup>9</sup> Concentric Written Response, pp. 118.

<sup>10</sup> Concentric Written Response, pp. 149.

1 DSM framework should align with the current policy objectives of the Province of Ontario. The  
2 DSM programs which are included in Union's DSM portfolio are currently limited by the  
3 screening and measurement methodology employed, not the structure of the incentive curve.  
4 Union further disagrees with Concentric's recommendation that an incentive should not be  
5 provided to the utilities if the actual results falls below 100% of an established target. This  
6 approach would stifle innovation and the development of new programs with an associated  
7 higher degree of risk in the first years of the program. The current model of earning a percentage  
8 of SSM for every unit of DSM benefits generated has worked well under the current framework  
9 and Union sees no compelling argument to change it. Under Concentric's recommendation, in  
10 the case where it became apparent mid-year that a target would not be achieved, the utilities  
11 would have no incentive to drive further savings. This would result in lost DSM opportunities in  
12 the marketplace. The recommendation put forward by Concentric that in this situation, the utility  
13 would propose lower targets to the Board such that achieving 100% of the target was feasible<sup>11</sup> is  
14 not appropriate. It would introduce significant uncertainty and debate and process around  
15 shifting targets which could not be adjusted in time to avoid program disruptions in the  
16 marketplace.

17

#### 18 Resource Acquisition Programs

19 Union proposes that for resource acquisition programs, the incentive should be calculated on a  
20 straight-line basis from the first unit of resource savings achieved. Each unit of DSM savings

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<sup>11</sup> Concentric Written Response, pp. 56.

1 has the same value to ratepayers, and society, regardless of whether it is the first or last unit  
2 achieved in a given program year.

3

4 A significant amount of time and resources were spent in previous DSM proceedings debating  
5 the appropriate DSM targets to be used. The targets for resource acquisition programs should be  
6 eliminated. The straight-line approach negates the need for a target and will simplify the  
7 incentive measurement structure. The end result is a more straight-forward and easily  
8 understandable incentive mechanism, which aligns with the guiding principles outlined by  
9 Concentric.

10 Where program objectives extend beyond resource savings alone it may be appropriate to use a  
11 scorecard measurement approach to align the program incentive with DSM policy objectives.

12

### 13 Low-Income Programs

14 For low-income DSM programs, it is appropriate to use a scorecard measurement approach to  
15 generate the utility incentive. This approach would be utilized to incent the utilities to pursue  
16 deep savings measures, such as home weatherization, as well as basic measures. A scorecard  
17 model eliminates the disincentive for the utilities to shift limited budget dollars away from higher  
18 SCT initiatives which produce the greatest resource savings per dollar spent.

19

20 A resource savings approach is not appropriate for low-income programs as it does not include  
21 benefits which are difficult to quantify, such as improved comfort. It would therefore understate  
22 the value of programs which generate deep savings for low-income consumers. Just as the low-

1 income screening threshold should be lowered to acknowledge these benefits, the scorecard  
2 metrics can be balanced to emphasize programs that maximize non-energy benefits.

3

#### 4 Market Transformation and Development Programs

5 Market Transformation programs, along with Development Programs that promote increased  
6 capacity to deliver DSM programs in the Ontario marketplace, should be measured through a  
7 scorecard model to determine the utility incentive. The scorecard metrics should be developed to  
8 reflect the objectives of the program. The actual score for each scorecard metric would be  
9 utilized as the multiplier applied to the metric's incentive weighting. The individual metric  
10 scores would be combined to determine the total incentive achieved. In terms of an incentive  
11 level, a scalable incentive relative to the program budget should be established for the multi-year  
12 term to avoid annual debate of the appropriate incentive level.

#### 13 Issue #9 – Lost Revenue Adjustment Mechanism (“LRAM”)

14 Union supports the current approach to calculating LRAM (utilities recover fixed distribution  
15 costs through both a fixed and a variable rate, which is set based on forecasted consumption  
16 including changes in energy efficiency). Union further agrees with Concentric's endorsement  
17 that the LRAM mechanism should provide for full recovery of lost revenues due to DSM  
18 programs so the utilities will at least be held neutral with respect to promoting conservation  
19 policy objectives<sup>12</sup>. However, Union believes that this recovery should be extended to industrial  
20 demand destruction that results from contract demand reductions as a direct result of DSM  
21 program implementation, and the lost gas revenue experienced from jointly delivered programs

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<sup>12</sup> Concentric Written Response, pp. 58.

1 with third-party program administrators. The LRAM methodology should recognize the  
2 industrial demand destruction.

3

4 Union does not support a prescriptive approach to revenue decoupling. Differences in  
5 circumstances between natural gas distributors and between natural gas and electricity  
6 distributors in Ontario necessitate an approach that is flexible and able to meet the needs of both  
7 distributors and ratepayers.

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

9 Union does not agree with Concentric's recommendation that the Board appoint the consultants  
10 responsible for conducting the independent program evaluation and third-party audit of program  
11 results. As with the annual financial audit conducted on the annual results of each distributor, the  
12 auditor retained to review the utility DSM results is an independent professional retained by the  
13 utility in consultation with the EAC. As the utility is responsible for compiling the information  
14 required to undertake evaluation and audit activities, they are in the most appropriate position to  
15 manage these activities. Union is in agreement that it is important to select an auditor that  
16 possesses the qualifications and expertise to verify the reported results.

17

18 Union recommends the current process be continued whereby the EAC is involved in the audit  
19 process, and is accountable for reviewing evaluation results on behalf of all stakeholders, as it  
20 provides for the level of rigour required for confidence in the DSM results achieved.

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

2 Union agrees with Concentric's determination that the current Annual Report contains the  
3 appropriate information for the Board and stakeholders to evaluate and assess the approved DSM  
4 programs. Additional reporting requirements will not improve the Board's oversight. The  
5 Annual Report in its current format should be continued to report on the DSM initiatives  
6 undertaken over the course of a program year.

7 **Issue #12 – DSM Stakeholder Input**

8 Union agrees with Concentric that the current OEB approach is appropriate to solicit stakeholder  
9 input. It strikes the appropriate balance by allowing stakeholders the opportunity to participate in  
10 the utility DSM activities without imposing undue costs and administrative burdens. The current  
11 level of stakeholder involvement in the DSM process has proved valuable and should be  
12 continued. A Terms of Reference document should be developed by the utilities, in consultation  
13 with the DSM Consultative, as this is a standard and responsible business practice which would  
14 provide further role clarity for all stakeholders.

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

16 Where appropriate, Union is receptive to partnering with electricity program administrators to  
17 achieve energy savings in the Ontario marketplace. To facilitate further integration between  
18 DSM and CDM, and to leverage the established delivery channels and relationships Union has  
19 built in the marketplace, the Board should ensure utilities are rewarded for the value they bring  
20 to a joint program. Attribution is most appropriately determined by the parties to the agreement,

1 recognizing that the total value of resource savings claimed by all regulated parties should  
2 clearly not exceed the benefits generated by the program.

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

4 Union is in agreement with Concentric that the current Ontario DSM framework should not be  
5 abandoned and replaced with an entirely different framework. Union has been successful in  
6 achieving significant results in DSM and to abandon a successful framework would not be in the  
7 best interest of Union's customers or of the Province. Union supports several of the  
8 enhancements recommended by Concentric and has provided alternative recommendations  
9 within this submission for the Board's consideration.