EB-2008-0346

ONTARIO ENERGY BOARD

RE: REVIEW OF DEMAND SIDE MANAGEMENT FRAMEWORK FOR NATURAL GAS DISTRIBUTORS PREPARED BY CONCENTRIC ENERGY ADVISORS, MARCH 19, 2010

COMMENTS OF THE CONSUMERS COUNCIL OF CANADA

INTRODUCTION:

By letter dated January 7, 2010, the Ontario Energy Board ("Board") confirmed its intent to proceed with a review of the existing demand side management ("DSM") framework for natural gas distributors. The Board further indicated that it would issue two consulting reports for comment.

The first of the two reports was prepared by Concentric Energy Advisors, entitled "Review of Demand Side Management (DSM) Framework for Natural Gas Distributors" (the "Concentric Report"). The Concentric Report evaluates Ontario's DSM framework against best practices in selected North American and other jurisdictions. It set out recommendations regarding various aspects of the DSM framework including:

1. the appropriate cost effectiveness test;
2. DSM budgets;
3. DSM program design;
4. shared savings and lost revenue adjustment mechanisms;
5. DSM program evaluation;
6. the integration of DSM and electricity conservation programs.

The second report was prepared by Pacific Economics Group, entitled, "Top Down Estimation of DSM Program Impacts on Natural Gas Usage" (the "PEG Report"). The PEG report evaluated the use of a top down economic approach to estimate gas savings of DSM programs for each of the gas distributors. The Board has invited comments on the two reports. These are the comments of the Consumers Council of Canada on the Concentric Report. These submissions regarding the Concentric Report are organized based on the 14 framework elements discussed in the report. With respect to the PEG Report we make a brief comment at the end of these submissions. Before commenting directly on the Concentric Report the Council will make some general comments.

GENERAL COMMENTS:

The Ontario natural gas local distribution companies ("LDCs") have been operating under the generic framework established by the Board in its EB-2006-0021 Decision. That framework was established by the Board in 2006 to be applied for the period 2007-2009. On January 6, 2009, the Board issued for comment its "Draft Guidelines for Natural Gas Distributors", accompanied by a Board Staff Discussion Paper. The intent was to establish, through a consultation process a new framework for gas DSM for the period beyond 2009. On April 14, 2009, the Board informed stakeholders that it intended to extend the existing framework given the fact the Government of Ontario had passed the *Green Energy and Economy Act* ("GEA"). In its letter the Board stated,

> ...the *Green Energy Act* will have an impact on electricity Conservation and Demand Management ("CDM"), and may also have an impact on the way DSM programs are treated in the natural gas sector. Even to the extent that the *Green Energy Act* does not include direct requirements regarding natural gas DSM, the Board may be guided in setting a new DSM framework by changes occasioned to the CDM framework by the Act.
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> As a result of these uncertainties relating to the *Green Energy Act*, the Board has determined that it would not be appropriate at this time to consider a new multi-year DSM framework for 2010. Instead, the Board will require Union and Enbridge to file one year DSM plans for 2010. The Board's intention is that a one year period will provide the time for the impacts of the *Green Energy Act* to become clear. It is the Board intention that these one year plans will serve as a stop gap measure, and they are not intended to form the basis of future plans. It is expected that the 2010 plans will be filed under the current DSM Framework, including increases based on the established budget escalators. (OEB letter dated April 14, 2009)

Enbridge Gas Distribution Inc. ("EGD") and Union Gas Limited ("Union") subsequently filed their 2010 plans. On January 7, 2010, the Board provided a further update. In that letter, it informed parties of its intent to proceed with a review of the existing framework, but required the LDCs to file plans for 2011 under the rules set out in the existing framework.

The Council submits that it is important for the Board to consider changes to the existing framework. As noted in it earlier submission on the previous Draft Guidelines the environment in which the natural gas DSM programs are delivered has changed significantly. Some of the more significant developments include:

- The Ontario electric LDCs began delivering conservation and demand management programs in 2005. Most of those LDCs continue to deliver programs through contractual arrangement with the Ontario Power Authority ("OPA");

- The Ontario Government, through the Ministry of Energy and the OPA has been attempting to promote and create a conservation culture in Ontario;

- The Federal Government has taken on an increased role in promoting conservation and energy efficiency;

- The Ontario Municipalities have taken on an increased role in promoting conservation and energy efficiency;

- Globally, there is an increased awareness of climate change and the importance of addressing it.

Since the Draft Guidelines were released the GEA has been enacted and several directives have been given to the Board. On March 31, 2010 the Minister of Energy and Infrastructure sent a Directive to the Board establishing electricity conservation and demand management ("CDM") targets for electric LDCs. The Board is in the process of developing a Code setting out the rules under which these targets will get established and under which the LDCs will develop and deliver these programs. Energy efficiency and conservation initiatives are now prevalent throughout Ontario.

From the Council`s perspective this begs the question as to whether or not the gas DSM budgets should be ramped up significantly if there are a multitude of other service providers delivering conservation and energy efficiency programs in Ontario. In addition, given the multitude of other service providers it may well become increasingly difficult to accurately measure the results of DSM programs.

The Council has been involved in natural gas utility DSM since its inception, participating in the DSM Consultative processes for both Union and EGD. Largely because there are Shared Savings Mechanisms (``SSMs``) which involve a payment to the utility shareholders by the ratepayers, based on DSM results, the DSM issues have been contentious. There is currently an extensive process in place involving consultation, evaluation of results and the auditing of those results. Considerable debate has centered around input assumptions which can change from year to year. The Board will need to consider a new framework that is simpler to administer and avoids the types of debates that have been so common in the past. In developing new Guidelines the Council urges the Board to consider the following:

- How best to balance the interests of the utility ratepayers and shareholders;

- What framework best allows for cost-effective DSM to be pursued, while ensuring that the regulatory burden is minimized to the extent possible;

- What incentive levels are "required" to facilitate cost-effective DSM; and

- The extent to which other factors such as overall rate levels may affect the level of DSM budgets.

The Council has provided comments below on the various issues and framework elements discussed by Concentric. As we set out in our earlier comments it is important to recognizes the interrelationship between all of these elements. Specifically, the Board cannot , and should not consider budget levels, incentive structures and targets in isolation. Ultimately, the Board may establish parameters and guidelines, but approval of DSM plans going forward will have to be considered through an application process that assesses the relationship between all of the elements of that plan. The Council urges the Board to give careful consideration to all of these issues before mandating the next set of guidelines. Further consultation will be required. From the Council's perspective utility DSM programs should be established though a framework that focuses on what is in the best interests of an LDCs customers.

Cost- Effectiveness Tests:

In the Generic DSM Decision (EB-206-0021) the Board determined that the Total Resource Cost Test ("TRC") would be used as the primary test to evaluate the cost-effectiveness of a DSM measure or program. The Board also determined that the other tests identified in the previous generic proceeding, EBO 169-III, should also continue to apply. Under the current guidelines the TRC test is applied to evaluate cost-effectiveness of measures, programs and portfolios.

The Concentric Paper examined the comments made by parties on the original Board Staff Guidelines and explored the use of tests in the other jurisdictions it assessed. Concentric has recommended the following:

> From Concentric's perspective, the traditional TRC test is no longer the best cost-effectiveness test for evaluating DSM programs on Ontario because it does not consider environmental and/or social externalities . In order to evaluate DSM programs that help the Board achieve more stringent conservation and climate change objectives, Concentric recommends that the Board consider adopting the Societal Cost Test (which includes all reasonably estimable externalities including CO2 emissions) as it primary method of assessing the cost effectiveness of proposed DSM programs. Under this approach, the Board would approve all energy efficiency and conservation programs with a benefit/cost ratio of 1.0 (subject to the budget constraints discussed under Issue 6 below) Further, Concentric recommends that the Board consider using the Program Administrator Cost test to prioritize the proposed DSM programs and measures. Priority should be given to those programs and measures with the highest PAC test results, thereby aligning DSM targets with DSM spending. (p. 46)

In addition, Concentric made specific recommendations regarding programs for low-income customers:

> Concentric recommends that the Board separately evaluate the cost-effectiveness of proposed DSM programs for low-income customers. We find merit in the approach used in California,

> which has established a stand-alone framework for DSM programs designed to serve low-income customers. One benefit of this approach is that it allows utilities to design and deliver targeted DSM programs to this unique customer group even though the programs may not pass the traditional cost-benefit analysis. The Board indicated that DSM programs for low-income customers should not be required to achieve a TRC result of greater than 1.0.
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> Concentric recommends that the Board consider adopting a Societal Cost test threshold for low-income programs of .60 to .75. This range is somewhat more aggressive than the .80 TRC result used in British Columbia, but more conservative than the .25 modified Participant Test result adopted in California. The recommended range of .60 to .75 is higher because it utilizes the Societal Cost test (which includes externalities), while the range in other jurisdictions relates to the TRC test or the Participant test (which do not include externalities). We believe that this range strikes an appropriate balance between the policy objective of encouraging energy efficiency programs for low-income consumers and ratepayer advocate concerns regarding the impact of DSM program costs associated with such programs on customer rates. The Board may wish to modify this range after one or two program cycles, when it has more information available regarding the success of low-income programs and their impact on customer rates. (p. 48)

Concentric has also recommended that the Board apply the cost effectiveness test on a program basis so that each program or measure is evaluated on its own merits (p. 48).

The Council is of the view that at this time moving to a framework that uses the Societal Cost Test (``SCT``) as the primary method to screen measures and programs and evaluate results would only add complexity to a process that is already inherently complex. Debates about input assumptions would only be exacerbated. Measuring externalities like $ per tonne for carbon is complex , and agreement amongst the parties would be a challenge. In addition, as Concentric has conceded other externalities like increased health and comfort would be difficult to quantify (Concentric Answers p. 8).

In addition, the Council is of the view that using the SCT will simply make it easier to pursue programs that are not necessarily cost effective in the traditional sense. In effect, the screening process will be less rigorous. Unless the Board is convinced that moving to the SCT will be better for utility customers such an approach should not be introduced at this time. The Council is not convinced that Concentric has made a case that moving to the SCT is preferable to using the TRC.

Concentric has proposed the use of the Program Administrator Test ("PAC") to prioritize the DSM programs and measures. The Council has not been convinced by Concentric that use of the PAC is required at this time. The Council encourages the Board to consider how employing the

PAC would enhance its assessment of DSM programs and the extent to which they need to be prioritized. From the Council's perspective use of the PAC may simply introduce another level of complexity. On the other hand it may be an appropriate tool.

Estimation and Use of Avoided Costs:

Avoided costs are part of the TRC test calculations. In the Generic Decision the Board mandated that each LDC calculate avoided costs for natural gas, electricity and water that reflect its cost structure and service territory. The avoided costs are reviewed as part of the multi-year plan application process and are in place for the length of the plan. Commodity costs (avoided gas costs) are updated annually.

Concentric has recommended that the gas LDCs maintain responsibility for calculating avoided costs and submitting them to the OEB for approval They endorse the current approach whereby the commodity costs are updated on an annual basis and all other avoided costs based on a three-year program cycle.

Concentric is also proposing the inclusion of avoided costs associated with renewable energy resources, reducing the discount rate to place more value on savings that are expected to occur in future years, placing a monetary value on the reduction on carbon emissions and extending the useful life of certain DSM measures Concentric is of the view that these concepts would assist the Board in achieving more aggressive policy objectives (p. 53).

The Council supports the current approach for dealing with avoided costs. To the extent the TRC is still employed there is a need to develop utility specific avoided costs and to update them as often as possible to the extent that is practical. The current approach which involves updating commodity costs on an annual basis should be adopted. If the Board chooses to move to longer term plans, it would also be appropriate to update the other avoided costs within the plan term rather than waiting for five years, for example.

Development and Use of Input Assumptions:

The input assumption currently used by the LDCs were initially established through the Generic Hearing process in 2006 and updated by Navigant Consulting for use in the development of the 2010 plans. Concentric has noted that the development of input assumptions is complicated and a highly technical process based on engineering assumptions for each specific technology. Concentric endorses the concept adopted by the Board that an independent consultant should be used to develop input assumptions. In addition, Concentric is of the view that if the gas LDCs wish to deviate from these assumptions they should be able to provided they file information in support of those assumptions (p. 61).

On the issue as to whether or not input assumptions should be locked in during the program cycle or updated to reflect the best available information, Concentric supports the concept of updating the assumptions. They note that the advantage of this approach is that it will enable the Board to better measure program success against policy assumptions Although this may add cost to the process Concentric does not expect those costs to be significant given Ontario's extensive experience with DSM programs (p. 62).

The development and review of input assumptions is likely the most complex and controversial aspect of DSM planning. In the past stakeholders have continually disagreed about values and the extent to which those values should be updated. From the Council's perspective the Board should be guided by the following factors when developing rules around DSM input assumptions:

- Input assumptions such as free-ridership rates are continually changing;

- Because input assumptions are used to measure DSM results, and to calculate incentive payments they should be updated to the extent possible and to the extent practical;

- In terms of calculating SSM payments and LRAM amounts, the best available information should be used;

- Input assumptions should be about measuring to the extent possible "real" savings and not "artificial" savings.

Adjustment Factors:

The current Board framework for DSM allows for the adjustment of TRC results for certain factors. This includes free-ridership and the attribution of benefits for joint programs. The Concentric Report referred to two more concepts, "persistence of savings" and "spillover effects".

Persistence of savings refers to how long a DSM measures is kept in place by a customer and under the current framework, persistence is assumed to be 100%. Spillover refers to a case where customers adopt energy efficiency measures because they are influenced by a distributor's program-related information, but do not actually participate in a program.

Concentric has recommended that the Board adopt a "market penetration" approach to DSM and accordingly asserts that if this approach was adopted the importance of adjustment factors would be reduced. They note , however, that, "...there will continue to be concerns about whether that market penetration is the direct result of energy efficiency and conservation programs, or whether it would have occurred regardless of those efforts." (p. 68).

With respect to free-ridership and spillover Concentric proposes that in order to simplify the controversy over free-ridership it should be assumed that free-ridership is offset by spillover unless a specific program can be reliably shown to deviate from this assumption. In the alternative Concentric believes that free-ridership should be determined through analysis undertaken as a part of the program evaluation results of by relying on evidence from other jurisdictions (pp. 68-69).

With respect to attribution of benefits Concentric does not support the current "centrality" principle and recommends that rather than attributing 100% of the benefits to gas distributors that satisfy the centrality principle, utilities should be required to provide evidence supporting any percentage greater than that actually spent by the utility (p. 69).

Concentric does not agree that persistence should be assumed at 100% and proposes that it be based on the LDCs' annual evaluation reports. Concentric also urges the Board to consider extending the useful life of certain DSM measures like replacement windows and attic insulation to more accurately reflect the actual savings produced by these technologies .

The Council is of the view that adopting the "market penetration of Best Available Technologies" approach to DSM would be premature without more detail around the parameters and further studies provided by the LDCs. If the current type of framework is maintained the Council has the following comments regarding the adjustment factors:

- The Council does not support the approach put forward by Concentric which would have spillover effects cancelling out free-ridership. This approach seems arbitrary, and is without evidence. Free-ridership, determined on a program by program basis will continue to be an important concept. The LDCs should not be rewarded for savings that have occurred regardless of their efforts. They should be rewarded for savings that have occurred as a direct result of their efforts.

- With respect to spillover, the Council does not see how this can be accurately measured. If the LDCs want to bring forward proposals to support "spillover adjustments" they should be required to do so with solid evidence. The Council questions why they should be allowed to earn incentives related to non-program participants.

- With respect to attribution, the Council continues to support the principle that the attribution of savings for joint programs should be considered on a case-by-case basis. Simply because a an LDC contributes more than 50% of the program funding should not necessarily mean that they should be allocated all of the savings resulting from that program for the purposes of calculating an SSM pay-out. Each program is unique and the saving attributed to the rate regulated LDC should be determined when the program is filed with the Board for approval.

- The Council agrees with Concentric that persistence should not necessarily be assumed to be 100% in all cases.

Design of DSM Programs for Different Market Segments:

Concentric has recommended that the Board use the energy efficiency potential studies from Union and Enbridge as an indicator of which programs are likely to achieve the highest energy savings because they are aligned with documented opportunities to reduce gas consumption.

With respect to market transformation programs Concentric acknowledges that it is difficult to verify savings with these programs and recommends the use of customer and vendor surveys to gather results. Concentric supports the pursuit of lost opportunities, but does not specify how these programs should be designed or delivered (p. 83).

With respect to low-income Concentric made a number of observations:

1. The low-income group presents unique challenges and opportunities for both regulators and utilities. This includes the fact the low-income customer may not

be responsible for the utility bill and the benefits of a program may only accrue to the landlord;

2. The utility should identify the geographic regions with the highest concentration of low-income customers;

3. The utility should focus primarily on those customers with the highest energy use and those that have a history of late payments or face disconnection;

4. The utility should focus on programs that serve entire neighbourhoods in order to capture economies of scale;

5. The utility should concentrate on programs that provide immediate and long-term benefits such as home weatherization and appliance replacement;

6. The utility should coordinate with community organizations and local contractors to modify consumer attitudes and behaviours through education; and

7. Serving this market segment requires a grass-roots, community based effort.

The Council supports the use of energy efficiency potential studies for determining which programs and/or measure will yield the highest savings for each gas LDC. With respect to market transformation program the Council supports the implementation of these programs, but recognizes that assessing results will continue to be a challenge.

On the issue of low-income programs, the Council is of the view that the Board initiate a separate process to determine how best to design, deliver and fund low-income programs. The Council has assumed that the Provincial Government is in the process of developing a low-income energy assistance strategy and it would be premature for the Board to establish a DSM framework dealing with low-income program without knowing how that strategy is intended to work.

As noted by Concentric there are challenges associated with low-income programs. One of the key issues for the Council is that in order to facilitate participation incentives are extremely high. Without Government funding this could mean one sub-set of residential consumers is funding another set - with incentives for weatherization or furnace replacements in the $3000-$4000 range per customer. This is a significant burden on those customers who have not been identified as low-income. Another key challenge with low-income programs is the administrative requirements. LDCs must take on the role of determining who is low-income, which present a whole host of challenges. The Council supports a separate consideration by the Board of low-income assistance generally. It would be premature to establish guidelines prior to that more comprehensive consideration.

DSM Budget Development and Approval Process:

The current DSM budget setting process was established by the Board through the Generic Hearing process. In 2007 EGD's budget was set at $22 million. Union's budget was set at $17 million. Escalation factors have been applied in each subsequent year. Within these budgets are amounts designated for low-income programs and market transformation programs. In addition, it is expected that these budgets fund research .

Both LDCs have Demand Side Management Variance Accounts ("DSMVA"). The intent of the DSMVA is to true-up the difference between what is embedded in rates in each year and what the LDCs actually spend. Incremental spending is permitted in order to achieve positive TRC savings once the LDCs achieve their target.

Concentric notes in the report that under the GEA it is possible that the Board could assess gas distributors for energy efficiency and conservation programs that are currently funded by taxpayers. (p. 87) Concentric has concluded that if the LDCs are required to collect $50 million from their ratepayers for government run energy efficiency and conservation programs that amount should be included in its overall budget recommendations (set out below) (Concentric Answers, p. 4).

Concentric concludes that in order to achieve more aggressive energy efficiency and conservation targets it will be necessary to increase spending on DSM in Ontario. Their recommendation is that the Board consider a minimum annual budget of 3% of utility revenues and a Board recommended range of between 4% and 6% (p. 95) With EGD`s current budget at $25 million for 2010 a move to 6% would increase that by more than double to $60 million. Concentric also recommends that LDCs be given flexibility in proposing the budgets and that they should develop those budgets in consultation with stakeholders (p. 96) With respect to evaluation monitoring and verification Concentric proposes that the LDCs allocate between 3% and 5% of their total budget to these activities.

As noted above, the Council is of the view that DSM budgets, incentive mechanisms and target setting area all inextricably linked. The Board should not set a budget level , for example without also considering what incentives levels should be. From the ratepayer perspective budgets and incentive payments are all funded by ratepayers and are considered as one cost. They cannot be determined in isolation.

With respect to Concentric's recommendation to establish DSM spending on the basis of between 4-6% of distribution revenue the Council finds this arbitrary. There is no valid reason to link DSM spending to distribution revenue. Under Concentric's proposal EGD could potentially have a budget $60 million relative to its current approved budget of $25 million. There is no evidence that this will result in an acceptable rate impact for EGD's customers, or positively impact EGD's customers. In setting annual budgets the Board will need to consider many factors including rate impacts of the budget as well as the SSM incentives, the extent to which other service providers are delivering DSM, other cost pressures that may push rate levels up, and the capacity of the utility to deliver cost-effective CDM. To simply tie spending to distribution revenue would be inappropriate and counter to the Board's objective to protect the interests of consumers with respect to prices. As with any other operating cost, the LDCs must prioritize their spending within an overall operating envelope. DSM should not be considered in isolation of that prioritization process.

Development of DSM Metrics and Targets:

The current DSM targets were established through the Generic Hearing process. Initial TRC targets were set and a formula was used to establish the targets for subsequent years. From the Council`s perspective one of the most challenging things about a DSM framework is to develop meaningful targets and determine to what extent those targets were met or exceeded. Concentric does not support the use of TRC targets as TRC savings are difficult to measure and verify. In the alternative Concentric is proposing that the Board adopt ``market penetration of Best Available Technologies (BATs)`` as its primary metric for evaluating whether a particular program or measure is successful. In situations where this cannot be measured the recommend measuring the reduction in gas consumption per customer attributable to the DSM program or measure (p. 107-108).

The proposal by Concentric would involve having the LDCs create inventories of each energy efficiency and conservation measure and the Board setting penetration targets for each measure. The target would be long-term over a period of three to five years. From Concentric`s perspective market penetration would be a more objective and measureable standard than energy savings. They add that under this approach there would be less concern among stakeholders that the utilities were being rewarded for achieving nebulous results that could not be independently verified (p. 108).

Concentric has not made any recommendations concerning how to determine its BATs approach to DSM (Concentric Answers p. 39). From the Council's perspective this approach represents a fundamental change in DSM policy that may take many years to develop and implement. The Council is of the view that mandating this approach at this time would be premature. Ratepayer groups would need to understand specifically how this approach would be undertaken and whether it represents the most cost-effective use of ratepayer money. It appears to be a form of market transformation which the LDCs are currently embarking on. Until this approach has been explained in a more comprehensive way, the Council cannot assess it applicability to the Ontario market.

If the Board stays with a TRC based approach target setting will continue to be a contentious issue. The LDCs have the best information about what they believe is achievable in their respective markets. The ratepayer groups do not have equal access to that information. From the Council's perspective targets should be aggressive and challenging for the LDCs. Targets should be set when the Board considers overall budget levels and incentive mechanisms.

Shareholder Incentive Mechanism:

In the Generic Hearing Decision the Board approved a Shared Savings Mechanism (``SSM``). The complex formula set amounts for reaching certain percentages of a pre-approved TRC target. There was an annual cap of $8.5 million established which would be adjusted each year using the Ontario Consumer Price Index. In addition, there were incentive amounts related to the achievement of market transformation scorecard results.

Concentric has recommended that financial incentives for the LDCs be primarily tied to the success of the gas distributor in achieving pre-determined market penetration levels for each

DSM technology. From Concentric`s perspective the current incentive structure does not appear to provide sufficient impetus for utilities to go beyond the generic solutions to energy efficiency (p. 118). Concentric does not, however, provide detail as to how the incentives would be structured or what levels of incentives would be appropriate for Ontario LDCs. Concentric does make the recommendation that LDCs should not be rewarded for achieving less than 100% of program success (p. 118).

With respect to Board-approved input assumptions Concentric supports the use of best available information for the purposes of calculating financial incentive payments. Given Ontario`s extensive experience with gas DSM, there is an expectation that revisions to the input assumptions would only be refinements and not involve significant changes (p. 119).

The Council has, in the past taken the view that SSM rewards for regulated utilities are not required. Facilitating DSM should be a service that utilities provide for their customers. DSMVAs allow LDCs to recover exactly what they spend and LRAM kept the LDCs whole with respect to lost revenue. In light of the GEA, LDCs like EGD have expressed interest in assisting the Government in reaching its objectives. The Council acknowledges, however, the Board has consistently approved SSMs for both EGD and Union.

As noted in its earlier comments the Council is of the view that there should be a better alignment between the achievements of the LDCs and the SSM rewards. There seems to be an imbalance when EGD spends $20 million of ratepayer money and receives over $8 million as a payment to its shareholder, while at the same time being compensated for lost revenue. "Returns" for DSM activities should not necessarily exceed returns received for other aspects of the distribution business.

The Council urges the Board to consider alternatives. The Council recognizes that there are pros and cons to every approach. It may be appropriate for the Board to set fixed incentive amounts based on the allowed budgets. This would reduce the rigour and controversy around assessing results and basing incentive payments on those results alone. From the Council's perspective simplifying the incentive design would be a positive step going forward.

Lost Revenue Adjustment Mechanism:

Both Union and EGD have Lost Revenue Adjustment Mechanisms ("LRAMs"). The LRAM is designed to compensate the LDCs for lost revenue resulting from their DSM activities. In the original Draft Guidelines Board Staff was not proposing any changes to the current LRAM approach.

Concentric recommends that the Board allow the Ontario LDCs to apply for revenue decoupling. They note that other jurisdictions are moving away from LRAM toward revenue decoupling. (P. 124) Their proposal is not for full revenue decoupling, but they support a model designed to deal only with the lost revenue attributable to energy efficiency and conservation programs. Until the Board moves to decoupling Concentric supports the use of the LRAM based on the most updated input assumptions.

The Council supports the continued use of the LRAM as proposed by Concentric.

Conservation Program Impact Evaluation Methods:

Under the existing framework the LDCs perform their own annual evaluation reports and those results are independently audited. The audit process is overseen by the Evaluation and Audit Committee ("EAC") for each LDC. The EAC is comprised of three intervenor representatives and utility personnel.

Concentric has recommended that the Board appoint entities responsible for conducting independent program evaluation and third-party audits of the program results. They highlight the need for independence (p. 132). The Council is generally supportive of the current approach whereby the LDCs conduct evaluation and have it verified by an independent audit managed by the Audit Sub-Committee of the DSM Consultative. If it was possible, and potentially less costly the Council would support the proposal by Concentric to have the evaluation of programs also be undertaken by an independent third party.

Filing and Reporting Requirements:

The LDCs are currently required to file annual evaluation reports of their DSM activities and ensure those results are independently audited. The LDCs are currently required to file annual evaluation reports of their DSM activities and ensure those results are independently audited. The audit process is overseen by the EAC for each LDC. In the Board Staff Draft Guidelines Board Staff set out a number of requirements for the annual evaluation reports and for applications for annual program funding. Concentric has supported those proposals on the basis that they will provide the Board with the necessary information about the success of DSM programs without imposing unnecessary costs and administrative burdens on gas distributors (p. 137). The Council support the proposals previously made by Board Staff.

Stakeholder Input and Consultation Process:

Both Ontario LDCs hold at a minimum two DSM Consultative meetings a year. The DSM Consultative is comprised of industry stakeholders. A sub-group is formed each year to act as the Evaluation and Audit Committee. Concentric has supported the existing framework for stakeholder input. The Council continues to support the Consultative process.

Integration of Natural Gas and Electricity Conservation Programs:

To date the Board has not set out rules to guide the integration of natural gas DSM and electric CDM in Ontario. Concentric has recommended that the Board consider ways in which gas and electric LDCs can coordinate or integrate their DSM programs (P. 145).

From the Council's perspective joint programs, in some cases make sense. The key issues for us include the following:

- Ensuring that natural gas ratepayers are not providing cross-subsidies to others with no corresponding benefit;

- Ensuring that there are proper protocols in place to measure savings, and ensuring that those savings are fairly allocated to the entity that produced them;

- Ensuring that there is no double counting of savings and corresponding incentive payments.

CONCLUSIONS:

The Council continues to support cost-effective DSM for Ontario's natural has LDCs. However, it is critical that the Board develop a framework that properly balances the interests of the LDCs and their customers. DSM is about providing services to LDCs customers, while at the same time ensuring that rate levels are just and reasonable.

From the Council's perspective the Concentric Report presented a great deal of useful information. It is important to recognize that many of the Concentric recommendations may not be appropriate for Ontario. In addition, many of Concentric's proposals, including the market penetration of Best Available Technologies approach, would need further detail provided before the Board could consider adopting such an approach.

The Council is concerned that the next step in this process is the development of Draft Guidelines by Board Staff. The Council is of the view that the process would benefit from an additional consultation session where parties could collectively consider some of the proposals made by Concentric and/or put forward by individual stakeholders. To simply put a plan in place following comment on the Draft Guidelines may well be premature. It is important that the next generation of natural gas DSM be given careful and thoughtful consideration by all stakeholders, including the Board itself.

PEG REPORT:

The PEG Report attempted to establish whether or not a top down estimation of gas savings resulting from DSM programs in Ontario would be feasible. PEG concluded that its research did not provide any "top down" evidence that is definitive enough to substitute for the existing bottom-up approach currently used. Accordingly the Council has no substantive comments to make on the PEG Report.

June 7, 2010

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