

April 20, 2011

Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, Ontario
M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

RE: EB-2008-0346 Demand Side Management (“DSM”) Guidelines for Natural Gas Utilities - Union Gas Limited (“Union”) Comments on Ontario Energy Board (“Board”) Letter Issued March 29, 2011

Dear Ms. Walli:

On March 29, 2011, the Board issued its letter informing EB-2008-0346 participants of the Board’s views and considerations regarding the role of ratepayer funded DSM activities for the next three years. The letter also invited interested stakeholders to provide written comments to inform the Board on specific issues relating to the role of ratepayer funded natural gas DSM for that period.

Specifically, although the Board agreed with Board staff that the appropriate term for the next natural gas DSM plan is three years, the Board found it appropriate to limit ratepayer funded natural gas DSM budgets to current levels. In support of its decision to limit natural gas DSM budgets to current levels, the Board cited concerns over cross subsidization and whether it is ultimately necessary for ratepayers to fund services which, in the Board’s view, are readily available in the marketplace. The Board also requested further comments on the natural gas utilities’ role in providing DSM programs for low-income, commercial and industrial natural gas consumers, education and training programs, and the utilities’ role in funding R&D and pilot programs.

Union has three significant concerns with respect to the Board’s March 29, 2011 letter. First, the Board’s letter only addresses the DSM budget level and the term of the next DSM plan. It does

not address the level of utility incentive or the determination of DSM targets which are inextricably linked to budget levels. Second, it is Union's view that some of the statements made by the Board are inconsistent with government policy and the current realities of the marketplace. Finally, Union is deeply concerned with the approach the Board appears to be taking as it relates to policy issues that are fundamental to the gas utilities' future role in DSM.

DSM Budget, Targets and Incentive

As indicated above, the Board's letter makes no reference to the level of incentive or the determination of DSM targets. DSM budgets, targets and incentives cannot be viewed in isolation of one another. In Union's view, the Board's decision to fix the budget for the next three years has clear implications for the programs that Union will be able to offer, the targets and the incentive level. First, without an increase to existing budget levels, Union cannot increase its low-income DSM programming beyond current levels. Any expansion of low-income offerings or deeper measures will require increased DSM spending. In addition, any expansion of low-income offerings will raise the very cross-subsidization issue which led the Board to freeze the DSM budget at the existing level. Second, as the DSM budget is to be held flat for the next multi-year DSM plan, the targets should also be held flat once re-established at a level consistent with the static budget over the next term of the DSM plan. Finally, since the utility incentive is reflective of utility activity and effort in achieving the targets, the current incentive level available for Union of \$10.34 million⁽¹⁾ should also remain fixed over the term of the next DSM plan. Maintaining the current incentive level will encourage and reward for leadership in the development and delivery of DSM programs rather than compliance. In summary, with a decision made to freeze the budget, the corresponding impact on the targets and incentive levels is to freeze them as well.

Continued Importance of Natural Gas DSM

Since 1997, Union's DSM programs have produced substantial energy savings and actual bill reductions for our customers. Union believes that conservation, and specifically natural gas DSM, continues to be an important public policy goal for both the provincial and federal

¹ Union's 2011 incentive level is comprised of \$9.24 million (the 2007 \$8.5 million incentive cap escalated by the CPI as determined in October of the preceding year), \$0.5 million for market transformation programs, and \$0.6 million for low-income weatherization.

governments, and is important to consumers as well. As indicated in the Board's letter, on July 5, 2010 the Ontario Minister of Energy issued a letter to the OEB urging the Board to consider expanding low-income DSM, as well as gas DSM generally. The Minister stated:

“I also urge the OEB to consider expanding both low-income and general natural gas DSM efforts relative to previous years. While mindful of the OEB's responsibility to ensure the balancing of ratepayer interests, I would support efforts by the OEB to expand DSM efforts in general, considering the scale of investments being made on electricity CDM and the natural gas DSM experience and funding levels of other jurisdictions”

It is unclear to Union how the Board's recent direction to effectively freeze DSM budgets, targets and incentives is consistent with the Minister's communication or with the longer-term goal of creating a culture of conservation in Ontario. Further clarity from the Board on this matter would be helpful to all stakeholders.

Open and Transparent Approach to DSM Policy Changes

Union is deeply concerned with the approach the Board appears to be taking as it relates to policy issues that are fundamental to the gas utilities' role in future DSM. As indicated above, natural gas DSM has provided significant benefits to Ontario consumers. Further, it is Union's view that natural gas DSM will continue to provide significant benefits to consumers in the future. If the long-term merits of natural gas DSM are in question then Union believes that there should be a full, open and transparent review before the Board makes any further decisions that could impact the future of natural gas DSM in Ontario. A policy forum that includes utilities, broader stakeholder groups and the Board should be convened to provide a factual basis for any further determinations by the Board. For instance, the Board's letter cites the government's withdrawal from the ecoENERGY program as support for taking a more cautionary approach to expanding ratepayer funded DSM programs. However, the Government of Canada recently announced in the proposed budget that the federal ecoENERGY Retrofit program would be reinstated. A further example is the lack of evidence on the availability of conservation programs in the marketplace. These examples simply reinforce the need for a policy forum where the Board can elicit a sufficient evidentiary basis for their policy direction on the future of DSM beyond the next three year plan.

Conclusions

Union recommends that the Board, having now determined that the natural gas DSM budgets are to be fixed for the next three years, move to finalize the DSM Guidelines as soon as practical. This will allow the gas utilities the time to complete and file their 2012 – 2014 DSM Plans with the Board for approval. Union also recommends that the Board initiate a full, open and transparent review of natural gas DSM during the term of the next DSM plan to determine the future policy direction of DSM in Ontario.

If you have any questions, please contact me at 519-436-4521.

Sincerely,

[original signed by]

Marian Redford
Manager, Regulatory Initiatives

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