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VIA COURIER AND E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
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Toronto, Ontario
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BoardSec@ontarioenergyboard.ca

Dear Ms. Walli:

**Re: Demand Side Management ("DSM") Guidelines for Natural Gas Utilities
(EB-2008-0346) - Issues for Further Comment**

The Canadian Energy Efficiency Alliance ("CEEA" or "Alliance") is a broadly based not-for-profit organization. It is the leading non-government, energy efficiency advocate in Canada. The Alliance was established in 1995 to respond to the lack of a coordinated multi-stakeholder effort to promote energy efficiency in Canada, leading to enhanced competitiveness and improved environmental protection. The Alliance works in partnership with manufacturers, utilities, governments, builders, labour and consumer groups, and environmental organizations to facilitate the adoption of energy efficiency measures in Canada. The Alliance is supported through fees and project contributions from members.

The Alliance did not seek intervenor status in the above noted proceeding. It is supportive of the direction inherent in the Concentric Report and the Minister's directive on natural gas DSM and low income DSM. However, given the seemingly abrupt about-face indicated in the Board's letter of March 29, the Alliance submits the following comments. The Alliance's comments address both the four issues on which you invited additional comment as well as on the general text in the letter.

On page 2, the Board notes that "today's market for conservation goods and services provides an array of solutions that are economically attractive to consumers. This has led to customers implementing DSM technologies without requiring a ratepayer funded or tax-funded subsidy."



While this may be true for some technologies, it has been the Alliance's experience that jurisdictions with consumer incentives see a higher uptake of higher efficiency products and a more robust range of service companies to implement projects as long as the policy and regulatory environment is supportive, certain and progressive.

On page 3, the Board notes that the "implementation of higher mandatory efficiency standards for new building construction, as part of the Ontario Building Code, and the more stringent efficiency standards and ratings of appliances, including water heaters and furnaces, has led and is expected to lead, to significant natural gas savings over time".

Again, this is true. The Alliance is a major participant in the processes related to codes and standards, but the reality is that the existing housing stock represents the area with the most potential for gains in efficiency and as yet the OBC does not fully cover renovations. The new home construction that would see the use of higher efficiency building codes and better products represent a small fraction of the total housing stock. Codes and standards are an important piece of the full range of energy efficiency initiatives, but not sufficient on their own to achieve the full potential of cost effective savings. DSM programs work well to accelerate the ability of code and standard setting agencies to move efficiency levels further and faster.

Also on page, 3, the Board notes that "DSM programs by their nature involve a level of cross subsidization; in effect a payment from those who do not take advantage of DSM programs to those who do. Although long standing regulatory principles state that cross subsidies should be avoided where possible, the Board has determined that some level of cross subsidization can be appropriate to address certain system wide and societal benefits within pre-determined limits. The Board has concluded, however, that the justification for gas DSM cross subsidies is eroding, and that expansion of DSM initiatives funded by natural gas ratepayers is not warranted at this time."

The Alliance suggests that Enbridge and Union have carefully segregated and allocated costs and benefits to respect customer classes. DSM is not the only function in which there are cross subsidies within a rate class. It is also the Alliance's view that the justification for DSM has never been greater. The Alliance is more concerned about the fact that if there were cross subsidies within a rate class, they were *from* low income residential consumers *to* higher income residential consumers who could afford participants' contributions required under traditional program designs.

In any event, the impact on rates is but one piece of the picture and should not be the driving force for decisions. A regulator whose objects include both consumer protection and conservation and efficiency should view DSM as its greatest tool to mitigate consumer bills. The definitive study comparing rate increase and bill savings was done in 1991 by a researcher at the

Oak Ridge National Laboratory, entitled: *The Effects of Utility DSM Programs on Electricity Costs and Prices*, Eric Hirst:¹

“Typically, the percentage reduction in electricity cost far exceeds the percentage increase in electricity price (rates) caused by DSM programs. Roughly speaking, the ratio of percentage changes is 2:1 for the surplus utility, 5:1 for the base utility, and 8:1 for the deficit utility.”

That this study was done with respect to electricity makes it no less true for natural gas. As the Board pointed out in EBO-169-III, two years later that “experience with gas DSM is limited, and it has yet to be fully evaluated in any jurisdiction in Canada or elsewhere.” That is no longer the case. As the Board’s own consultant study, the Concentric Report, pointed out that there is much experience with gas DSM.

Again on page 3, the Board notes that “Enbridge and Union have achieved significant natural gas savings through their DSM activities since the issuance of the Board’s E.B.O. 169-III Report. However, the Board also notes that, over that period, the level of complexity associated with satisfactorily measuring the savings achieved by these DSM activities has been a recurring concern. The Board agrees with the view that there is a need to focus on DSM programs that provide value to ratepayers as a whole with a high degree of confidence that results are actually achieved”.

The Alliance fully agrees with the last point but is not convinced that it follows from the proceeding statement. In fact, the speed at which the gas utilities have delivered DSM evaluations has increased and costs are in line with industry standards – again as noted by the Concentric Report.

On page 4, the Board notes Enbridge’s acknowledgement that “... many traditional gas utility DSM programs have reached, or are close to reaching maturity (e.g. high efficiency furnaces, programmable thermostats, low-flow showerheads).” In the Board’s view, this is an indication that part of the natural gas utilities’ objective for DSM may have been achieved and a gradual reduction in “traditional” natural gas DSM activities would lead to lower budget requirements. On the other hand, an increased focus on “deep measures,” such as thermal envelope improvements, could lead to larger budget requirements.

The Alliance is not convinced that Enbridge’s acknowledgement with respect to traditional DSM programs is an indication of either Board conclusion that “(a) part of the natural gas utilities’ objective for DSM may have been achieved or (b) a gradual reduction in “traditional” natural gas

¹ <http://www.ornl.gov/info/reports/1991/3445602868886.pdf>

DSM activities would lead to lower budget requirements. Both natural gas utilities have been restricted in the kinds of approaches that they can use by the OEB guidelines that they have been required to follow. With more innovative approaches, budget requirements will differ, but until they have the opportunity to develop programs using alternative approaches, it is premature to suggest the impact on budgets either in direction or magnitude.

On page 4, Board notes the “federal and provincial governments’ decision to withdraw from their deep measure residential programs (i.e., the federal EcoEnergy Retrofit and the Ontario Home Energy Savings Program)... should signal a cautionary approach in considering a significant expansion of ratepayer funded deep DSM programs”

The Alliance suggests that end of the EcoEnergy program by the federal government which ended the program support mechanism that the Ontario government made good use of should signal how **much more need** there is for natural gas DSM. It was likely one of the most successful energy efficiency programs ever in Canada, but it did nothing for the low income demographic. That is where DSM from the utilities has the advantage to target their efforts – and save significantly! In any event, the federal government did include a revitalization of the EcoEnergy program in its budget last week.

On page 5, the Board notes its concern “that the availability of ratepayer funded DSM programs may have the effect of discouraging or impairing the penetration of market-driven activities”.

In the Alliance’s view, it is the very existence of these programs that stimulate the penetration of market driven activities.

Also on page 5 and with respect to commercial and industrial DSM programs, the Board acknowledges the comments made by some participants that these programs can result in corporate entities financing, through their distribution rates, conservation measures that benefit their competitors.

The extent to which participants may finance conservation measures that benefit their competitors is dwarfed compared to the overall bill savings for all customers. Further, areas where the greatest need are in the public sector where industrial competition is hardly a factor. In the commercial sector, through REALpac and BOMA, so called competitors work together on matters related to energy and environmental sustainability, so any concern on this front is misplaced.

The Alliance provides the following comments on the Board’s specific questions. However, given the dramatic and abrupt change in direction, CEEA suggests that a broader, more inclusive stakeholder proceeding is required to examine the approach to DSM programs for Ontario’s natural Gas Utilities.

1. How should the low-income DSM budget be set? Should the low-income budget stay at the same level or increase? Should the current low-income budget funding from the residential class be maintained or should the funding be recovered from all rate classes? Is there a different set of programs that are appropriate for low-income consumers e.g. should “deep” measures be promoted for this group of customers to a greater extent? What approach should be used to coordinate gas DSM programs with electricity CDM programs for low-income consumers?

The Alliance suggests that the Board not “set” a low income DSM budget for the natural gas utilities. The Alliance understands that the utilities are already working with the electricity sector on the matter of low income conservation. The Alliance suggests that the Board should allow this process to continue, using the fundamental principles agreed to in its own consultations on low income programs from the summer of 2009. The budget requirement for each gas utility would arise from that coordinated design on the basis of the share of natural gas savings that can be realistically achieved over the next few years. The Board would ensure that those expenditures would be prudent and justified according to those guidelines.

2. Do industrial and commercial DSM programs with significant incentives create competitive advantages for the participants of the programs relative to their competitors? What programs, if any, are appropriate for these sectors? Should there be a focus on monitoring consumption, data analysis or benchmarking energy use in buildings and industrial processes? Should DSM programs in these sectors focus more on energy audits and efficiency training or case studies to highlight best practices and new technologies, rather than financing equipment and installation costs for specific DSM projects?

The Alliance has addressed the first question above and our response is no. The Alliance does agree that a shift toward a stronger emphasis on performance based conservation which includes audits, training and case studies, but just offering any of those items without a full performance based system for accountability as illustrated in TRCA’s submission earlier in this proceeding is not advisable.

3. What should be the natural gas utilities’ role, if any, in providing natural gas DSM education and training programs funded through distribution rates? Should they focus on targeting contractors, trades and professional associations to ensure DSM messages reach end-users?

The Alliance agrees that the natural gas utilities have a natural role in education and training programs funded through distribution rates. Such efforts should target the marketing channels listed here as well as others, and consumers, school children and others.

4. What should be the natural gas utilities’ role, if any, in undertaking R&D and pilot programs funded through distribution rates? Should utilities work with key industry



leaders to encourage further changes in building codes and improve standards in heating equipment?

In the Alliance's view, utilities represented a trusted source of information and processes than can enhance pilot programs as well as R&D with respect to DSM. It is also the Alliance's view that it is imperative that utilities work with key industry leaders to encourage further changes in building codes and improve standards in heating equipment.

While there may be cross subsidies the societal benefits and the load reductions are significant and in the view of the Alliance, fully justified. Enbridge and Union have demonstrated that they are ready, willing and able deliver these programs on an expanded basis as per the Minister's directive ... and it's the right thing to do!

CEEA also wishes to suggest that it is time for a holistic look at energy conservation inclusive of gas and electric programs as well as the wide range of alternative technologies such as geothermal, solar thermal and so on. Such technologies were recognized in the Green Energy Act, but still seem to fall between the silos of our energy sector. As the only energy agency with statutory responsibilities for both fuel types, it is important that the Board address the potential lost opportunities from the synergies of a holistic approach.

Yours truly,

FOGLER, RUBINOFF LLP

Tom Brett per: [Signature]

Thomas Brett

TB/dd