PUBLIC INTEREST ADVOCACY CENTRE
LE CENTRE POUR LA DEFENSE DE L'INTERET PUBLIC
ONE Nicholas Street, Suite 1204, Ottawa, Ontario, Canada K1NB7

April 21, 2011

VIA E-MAIL/RESS

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

Dear Ms. Walli;

Re: EB-2010-0346 DSM Guidelines for Natural Gas Distributors
Board Letter March 29, 2011: Issues for Further Comment

Comments of Vulnerable Energy Consumers Coalition (VECC)

Please find enclosed VECC's Comments regarding the above Issues for Further Comment.

Yours truly,

Original signed

Michael Buonaguro
Counsel for VECC

EB-2008-0346

Demand Side Management ("DSM") Guidelines for Natural Gas Utilities

Issues for Further Comment

Comments on Behalf of the Vulnerable Energy Consumers Coalition (VECC)

Introduction-Focus of VECCs Comments

The Board has stated that it is seeking comments on only four issues

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?

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?

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?

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?

VECC will focus its Comments primarily on the first set of issues with some additional comments on issues 3 and 4.

DSM and VECCs Constituency

For DSM Budget and Program matters VECC's constituency can be seen as comprised of two main segments of the residential housing sector:

- Renters of residential low rise and high rise Social and Market Rate housing units
- Senior citizens who own their own housing units

A significant proportion of our constituents are low income, and a significant proportion are fixed income.

How should the low-income DSM budget be set?

There are four sub-issues under this issue:

- 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?

Budget Level and trajectory for Low Income DSM Programs

VECC notes its Staff Paper comments on this topic:

> First VECC suggests that the Guidelines move to a three envelope budget
> - Envelope 1 Residential
> - Envelope 2 Commercial
> - Envelope 3 Industrial
>
> Discussion and analysis around levels and budget trajectories would be much more meaningful based on three envelopes than on a total Budget basis. In addition, Program costs are allocated/recovered on a class basis which corresponds more closely to the three envelope approach we are suggesting.
>
> In general VECC does <u>not</u> agree with freezing overall budgets at current levels. Both Union and EGD are growing utilities (customers and revenue) and at a minimum growth plus cost inflation should be a component of the Budget trajectory going forward. In addition, as the programs grow there is reason to question whether the current structure of shareholder incentive is appropriate. (see below)

On the other hand, the second [*staff proposed*] option results in budgets that are way out of the range recommended by CEA (and Best Practices) and would result both in rate impacts that are excessive and in undue cross-subsidization of participants by non-participants.

VECC is very concerned about these latter two considerations. There are several hundred thousand Low Income "gas" customers and only a small portion will be reached by the programs in the plan period. There are innumerable seniors-over 600,000 of which are members of OCSCO, one of VECC's member groups- many of whom are on fixed incomes, and even smaller portion of these energy consumers will be reached by the programs over the plan period.

The third option is more realistic, but VECC suggests that moving to 5% (rather than 6%) of Residential revenue is a more reasonable and realistic trajectory for the Residential sector budget over the plan period.

VECC recommends that Board staff provide an Envelope Level analysis of two additional budget options for the residential budget Envelope:

a) Benchmarking Budget Option using a <u>*modified*</u> CEA range of 3-5 % of Total revenues; and
b) A budget trajectory based on a continuation of the current DSM Y factor under IRM. (escalation at CPI-X).

VECC has the following additional comments

The current proportion of the residential sector DSM budget for targeted Low income programs (14% plus market transformation budget) is potentially too low and a review of the demographics of residential customers should be done to update this for each utility. The Gas "Residential sector" is split between the Residential and Commercial rate classes and the proportion of funds allocated to low income customers should be calculated based on the sector as a whole.

VECC disagrees with Staff's proposed exclusion of the rental sector from consideration of low income budget levels and program eligibility. With the movement to suite metering in the multi family building (MFB) sector it is critical that not only existing suite metered customers but all potential suite metered are included in setting budgets and in program eligibility. In addition several "In Suite" measures are part of best practices for the MFB sector.

As noted in our earlier (Feb 14 2011) comments the principles established by the Conservation Working Group should guide the Board and utilities in their consideration of appropriate Low Income budgets and programs. This implies that Low income Budgets should increase over time with due attention to rate impacts.
VECC strongly advocates that in setting Low income budgets ***affordability*** is a key consideration. The costs of DSM programs including Low Income DSM programs should not result in rate impacts that, when taken together with other cost of service rate

increases, produce hardship for low income and fixed income customers that are non-participants due to eligibility and/or the limited reach and timing of programs aimed at their sector.

Should the current low-income budget funding from the residential class be maintained or should the funding be recovered from all rate classes?

VECC's understanding is that the current cost recovery for both general and low income DSM programs is based on the established regulatory principles of cost causality.

As noted above the low income housing sector is divided between the residential and commercial classes and so the pure principle is not really applied to the proportion of the sector budget in the current approved cost allocation. This, along with the % proportion allocation should be addressed in the next set of guidelines.

However, to move from the current cost responsibility mechanism to a general levy requires that the Board is convinced that Gas DSM programs (and the corresponding electricity CDM programs) are a "Public Good" and are to be funded from a general levy on rates.

There is significant precedent for this in US jurisdictions (Pennsylvania for example) but not in Canada.

The nearest is Manitoba where the Affordable Energy Program (funded out of electricity Export revenues) tops up the Low Income Energy Efficiency Program funding from gas and electric rates).

In Ontario Emergency Financial assistance (LEAP) is funded through an allocation to all rates.

In Ontario the OPA's province-wide CDM programs (including a yet to be established Low Income program) are funded out of the Global Adjustment on a volumetric basis. However to date LDCs have proposed that supplementary Electricity CDM programs are funded on a rate class basis.

Accordingly to move to funding Low Income programs from a general levy would be a relatively small step. However, whether this can be done under Board's current mandate or will require additional legislative authorities is a legal issue that is out of the scope of these comments.

Mass Market vs. Deep Measures for Low Income DSM

The Board Letter raises the issue of whether future Residential DSM programs should continue to be mostly shallow measure based or should a switch to deeper measures be made and the Budget Implications of such a paradigm shift:

An increased focus on deep measures in the residential sector may or may not be appropriate, but in any event should be accommodated within the current DSM budget levels. This approach would alleviate concerns regarding cross-subsidization levels. In addition, maintaining the DSM budget levels would be consistent with the Board's view of the appropriate role of natural gas DSM, as described below.

VECC Comments

The current wisdom on Best Practices for Low Income DSM/CDM is that the focus should be on deep measures-Weatherization, Appliance replacement etc. This aligns with the Conservation Working Group Report and Recommendations.

The implications of this are that overall DSM Budgets and achievement (# units upgraded) must increase and a sustained multi-year program effort is required. However, as noted earlier this requirement must be balanced against the affordability of the program for non-participants.

Should, as in the past, the focus be on owner-occupied and social housing low income units or should the MFB rental sector also be targeted? VECC suggests a balance based on the estimated number of units of each type in each utility franchise area.

A further implication is that for the rental sector the relative contributions of the renter and landlord must be assessed and issues around split incentives be definitively determined.

VECC suggested the Following changes to the Board Staff Draft Guidelines

Section 2 Utility Bill Payment Responsibility Criterion
Participants ~~must pay their own utility bill,~~ must meet all eligibility criteria. Where they reside in rental accommodation landlord consent may be required (see 4a) below).~~except where they reside in social and assisted housing.~~ All residents of social and assisted housing (in Part 9 buildings, as defined by the 2006 Ontario Building Code ("OBC")) will be eligible for participation in the program provided they meet all other eligibility requirements. Only natural gas-heated ~~homes~~ housing units will be eligible for building envelope measures.

Section 4 Landlord Consent Criterion (if applicable)

Private building residents: Tenants living in privately rented ~~homes~~ housing units must obtain the consent of their landlord to participate in the program, in accordance with the terms of their tenancy agreement.

VECC suggests that for electricity CDM the playing field is changing due to sub-metering. For rental properties landlords under the tenancy agreement can control the installation of DSM measures in suite and if the tenant is sub-metered will expect the tenants to pay for measures applied to the rental space (as opposed to common areas).

The implications for gas DSM are that the landlord controls the installation of mass market (shallow) measures and that the landlord is the key counterparty for deep measures under all programs aimed at the MFB sector.

What approach should be used to coordinate gas DSM programs with electricity CDM programs for low-income consumers?

VECC notes its Comments of February 14, 2011 on this subject:

> 3.15 Coordination and Integration of Natural Gas and Electricity Conservation Programs
>
> VECC disagrees strongly with the proposal not to mandate cooperation between the principal Ontario CDM and DSM program providers (OPA and the two gas utilities)
>
> The Board should require both parties to operate under a Board Approved/sanctioned MOU that aims to promote cooperative program delivery and avoidance of duplication. Since OPA is contracting its programs to the EDs it is critical that the requirements form part of the Master Agreements with these EDs It is not in the best interests of the ratepayers and would be a major Missed Opportunity not to require this cooperation. Unfortunately the OPA train has left the station-- a fact that is exacerbated by the delayed issuance of these Draft DSM Guidelines.

VECC would add the following points

Customer confusion is the major result of not requiring cooperation/collaboration between the gas and electricity sectors. Both sectors aim to increase their Brand profile via various media and it is difficult, even impossible, for consumers, especially those that may be particularly vulnerable, to distinguish what is on offer and who can best help them.

However it would not be appropriate to direct Union and Enbridge to enter into MOUs with the OPA and/or the Electricity distributors without also requiring the OPA and EDs to do the same. Anecdotally the Gas Utilities indicate that full cooperation has not always been the case.

If, as VECC believes, direction to both sectors of the Ontario energy market is required then the Board should ask the Minister of Energy to provide that direction. The Board should then host the necessary discussions to prepare an appropriate MOU including providing for stakeholder input.

Attribution rules are often at the centre of who does what to whom and the Board should ensure these are aligned with incentives for rate-funded programs.

What should be the natural gas utilities' role, if any, in providing natural gas DSM education and training programs funded through distribution rates?

VECC notes its comments on this topic in its Feb 14, 2011 submission

> 3.3 Program Types and Design
>
> In general, VECC agrees with Board Staff that the three main types of Programs should form the majority of the activities and budget allocations. At present there is provision for R&D and Pilot projects and these should be proposed and approved or not, on their merits as at present.
>
> The only caveat that VECC suggests is "program centric" activities that improve the delivery effectiveness and results of programs should be considered. The only one of the 3 examples cited by Board Staff that meets the "program centric" criterion is the training of building operators.
>
> VECC agrees with Staff that it may be that resource acquisition and low-income programs require a certain level of "Capacity Building," which may be part of a program delivery component. This is particularly the case for targeted Low Income Programs, as noted earlier.

VECC would add the following Comments

Program enabling activities are critical to the success of Gas DSM programs.
One of the major barriers to uptake of low income programs is education and training of the intermediaries/consumer advocates and the contractors that perform critical tasks

First there is need to train agents involved in screening both customer eligibility and housing unit selection (social agencies, housing providers). It is particularly critical for the Low Income programs to overcome possible barriers to participation.

Second, as the Federal Government ecoEnergy program found, it is also critical to have trained energy auditors and installation contractors to the work. With the growth of both OPA funded and Gas DSM programs capacity building is crucial and training and certification programs should be jointly funded by OPA and the gas utilities.

What should be the natural gas utilities' role, if any, in undertaking R&D and pilot programs funded through distribution rates?

VECC Comments

VECC notes that R&D in general and R&D related to energy efficient technologies are currently part of the cost of service recovered in the gas utilities Rates. For many years Union and EGD have participated in industry wide R&D in Canada and the USA and participated in Pilot projects and in codes and standards development. VECC interprets the issue to be whether Union and EGD should increase their energy efficiency R&D activities as an adjunct to a new gas DSM program.

As noted in our earlier submission there is a provision to bring such proposals to the consultative and include them and the related budget in the applications to the Board. During the development of the 2011 Low Income DSM programs there was discussion of R&D activities and a modest increase was included in the budget placed before the Board.

VECC believes that the current mechanisms are working and there is no need to mandate increased R&D budgets.

Next Steps

VECC noted in its February 14, 2011 comments that Staff recommended that:

"…the natural gas utilities consult with their stakeholders to determine appropriate low-income DSM budget levels over the term of the plan. Staff expects those consultations to consider the degree to which coordination and/or integration of low-income natural gas DSM programs with low-income electricity CDM programs is warranted at this time, as well as consider the low-income natural gas DSM budget level required to support that recommendation."

VECC agreed with a further round of consultations, and suggested that they be focused on the Residential sector Budget Envelope and attended by representatives of Low Income consumers and other residential ratepayers.

In the event that there is a possibility that cost responsibility for Low Income Programs could change then the Low Income budget policy forum should broadened to include other stakeholders.