

April 21, 2011

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

Dear Ms. Walli:

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

As indicated in our previous submission, we support the Board's efforts to encourage energy conservation through Demand Side Management (DSM) guidelines and conservation targets for natural gas distributors. We are disappointed by the Board's view that increases in the DSM budgets are not warranted at this time.

Focus on Deep Conservation Measures

As noted, it has become increasingly difficult for natural gas utilities to cost effectively spend their current DSM budgets by focussing on "shallow" measures. In Toronto, we are aware that Enbridge has nearly exhausted opportunities to achieve gas savings through delivery of its TAPS program because the market is near saturation. However, we respectfully disagree with the Board's conclusions that "this is an indication that part of the natural gas utilities' objective for DSM may have been achieved." We agree with the Board's earlier position that in response to the diminishing low-cost opportunities for the mass market, the next generation of DSM programs need to focus on encouraging deeper energy conservation measures such as insulation upgrades.

Free-Ridership and Market Forces

The Board's letter suggests that many residents have undertaken conservation activities without requiring ratepayer-funded or tax-funded subsidies. While we agree that this may often be the case for the replacement of windows and heating equipment, we disagree that this is the prevailing case for deeper energy conservation measures such as insulation upgrades. Insulation upgrades can be costly and disruptive and are not typically motivated by aesthetic factors, as windows can be, or by necessity as when one's furnace reaches the end of its service life.

There is very clear evidence that the ecoENERGY and Ontario Home Energy Savings programs encouraged consumers to make investments that they otherwise wouldn't have. The presence of

these programs has sent important policy signals to residents on the importance of energy conservation, while the grants and other program supports have created new jobs and the necessary expertise to help residents undertake energy retrofits.

The City of Toronto has undertaken a comprehensive resident survey to understand the motivations of those who implemented energy retrofits and the barriers that prevented further investments. The research confirms that the presence of subsidies played a key role in decision-making and it also made it clear that market forces alone are insufficient to encourage investment at the level needed to meet our conservation goals. The upfront costs and the complexity of managing the retrofit process pose significant barriers that expanded DSM programs could help to overcome.

Cross-subsidization

The Board notes a concern that a focus on deeper measures will mean fewer participants can be reached and that the cost per participant will be higher. We believe that the Board's focus should be on enabling the most cost effective opportunities to achieve conservation. The energy efficiency of Ontario's housing stock is widely divergent and it would be unreasonable to expect parity in DSM offerings to all rate-payers. The public good can be most effectively served by spending conservation dollars on poorly insulated older homes, rather than maintaining a focus on shallow measures for newer homes built to more stringent energy standards. The Board should not be concerned if fewer residents are being reached through a focus on deep measures if there is greater conservation value being returned for those investments.

The Board has also specifically expressed concern that a growing level of cross-subsidization is inconsistent with its mandate to regulate gas distribution and protect the interests of consumers. We would like to point out that the Board's mandate is also to "promote energy conservation and energy efficiency in accordance with the policies of the Government of Ontario." The Province has sent very clear policy signals and direction that implementation of the Green Energy and Economy Act should be a key priority for the Ontario Energy Board. We would ask that the Board reconsider the balance in its priorities and that the public interest is best served by a marginal increase in the cross-subsidization rates to achieve Ontario's conservation goals.

DSM Budget Level

It is important to keep the proposed budget increase in proper context. Budget Option 2 proposed by the earlier staff report would have raised Enbridge's Budget from \$28M in 2011 to \$76M in 2014. This budget increase could enable widespread home energy retrofit activity, delivering natural gas conservation, green jobs and greenhouse gas savings for the Province of Ontario. For the average Enbridge customer, the increase in energy bills would equal \$25 annually or just over \$2 a month.

As previously stated, we believe that the Board should be "more concerned with customer bills, not the rates" with the underlying implication that taking a long term view to help high energy consumers lower their bills through conservation efforts is preferable to a short-term view that is focused on a small escalation in rates. Enbridge and Union Gas have both publicly expressed an interest in expanding their conservation program offerings. The City supports the program concepts that Enbridge is developing including a "Whole Home Retrofit Program" that would offer cost-effective subsidies to encourage deep energy retrofits, and a "Community Energy Retrofit Program" that would focus on neighbourhood-based program delivery to achieve cost savings through economies of scale. We encourage the Board to reconsider its decision and expand DSM

budgets in line with the Province of Ontario's stated policy goals to enable these important initiatives.

Low Income DSM Budget

The current low-income budget could be increased and / or the cost effectiveness threshold could be lowered to enable deeper insulation measures and possibly heating equipment replacement. Our experience delivering the low-income program in Toronto with Enbridge has been that one of the most costly aspects of program delivery is the amount of time and effort required to generate referrals. Feasible conservation opportunities should not be left on the table once a utility has gone through the effort to engage and qualify a low-income resident for the program.

In the Toronto pilot program, one-time funding from the City has demonstrated that very substantial energy savings are possible by moving beyond the current TRC threshold. We would encourage the Board to consider allowing gas utilities more flexibility in low-income program design so that they could undertake more work in each home than is currently permitted by the Board guidelines. The Board should also continue to encourage collaboration with municipalities and local distribution companies as a way to deliver cost-effective outreach and communication strategies and avoid duplication.

Industrial and Commercial DSM Programs

DSM programs may create a competitive advantage for those who utilize them. However, we believe these programs are justified because they provide public benefits. The programs are equitable because they are accessible to all businesses in a specified sector. Industrial and commercial DSM programs should continue to be offered for Resource Acquisition (i.e. incentives to invest in efficient equipment and more efficient operations), Market Transformation (i.e. facilitating changes that lend to greater market shares of energy efficient products and services), Research and Development and Pilot Programs. Programs offering financial support for energy assessments, project implementation, energy management systems, and technical assistance have been particularly successful in delivering energy conservation.

The City of Toronto's Economic Development Officers (EDOs) have a direct relationship with the Industrial and Commercial Sectors and have received direct feedback on the following DSM program elements:

- Benchmarking is the most important element to encourage energy efficiency improvements in the industrial and commercial sectors and identify best practices. The main question asked to EDOs, when trying to encourage energy efficiency is: "How are my competitors doing?" The ability to benchmark between similar portfolios can help the overall sector improve its efficiency and drive continuous improvement.
- Case Studies with actual data on costs and savings achieved by industries and businesses are helpful in deciding to implement energy efficiency measures. It is important that case studies are classified by business sector and size, to make sure that only relevant ones are presented in communication materials.
- Resources should be allocated for the coordination of marketing and education programs offered by the electricity, gas and water utilities. Efficient use of staff time is a key concern in the industrial and commercial sectors. They want to be able to easily find all the information in one place and marketing tools should be designed to target specific industry and business

sectors and sizes. Industries and businesses are not interested in spending time learning about programs that are not relevant to their specific case.

- Many businesses, especially smaller ones, don't have dedicated staff available to investigate water and energy efficiency solutions. Technical assistance should be offered to guide businesses throughout the whole process from undertaking an audit, to prioritizing certain measures, to implementing the retrofits. The assistance should be offered as a one-stop service for gas, electricity and water efficiency.

DSM Education and Training Programs

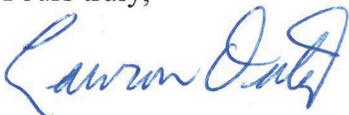
Natural gas utilities should play an important role in offering education and training. Education should not only target contractors, trades and professional associations but also the general public. Neighbourhood-based education efforts, where the information is customized for the specific needs of each area, have been highly successful around the world to encourage the implementation of energy efficiency measures. The DSM framework should encourage co-ordinated education efforts among gas, electricity and water utilities. For the business community, training and networking can help drive the solutions from peer-to-peer networks. Given that operational improvements are a cheap source of savings, a bigger focus on better building and process management should complement assistance in financing new energy efficient equipment.

R&D and Pilot Programs

We believe that the Board should encourage R&D and pilot programs as a cost-effective way to encourage market penetration of new technologies, support the energy retrofit industry and assist utilities in designing, testing and refining efficient and effective DSM programs. We also believe that natural gas utilities should play an active role in encouraging building code changes and improving standards in heating equipment. Our experience working with Enbridge has demonstrated that they can make very positive contributions to these discussions.

Thank you for your re-consideration of these matters.

Yours truly,



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