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April 21, 2011

Ontario Energy Board
2300 Yonge St., 27th Floor
Toronto, ON
M4P 1E4

Attn: Ms Kirsten Walli
Board Secretary

By electronic filing and e-mail

Dear Ms Walli:

Re: EB-2008-0346 DSM Guidelines for Natural Gas Utilities – GEC Comments

Attached are the Green Energy Coalition's comments in response to the Board's four added issues included in the March 29th letter from the Board. Please note that these comments also include a request for a change in process.

Sincerely,

David Poch

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DSM Guidelines for Natural Gas Utilities
GEC Comment on Issues for Further Comment

The Green Energy Coalition (GEC) represents over 125,000 Ontario residents who are members or supporters of its member organizations: the David Suzuki Foundation, Greenpeace Canada, Sierra Club of Canada and WWF-Canada.

Before turning to the four specific questions we wish to stress that GEC has found both the process to date and the proposed process inadequate given the major changes the Board has proposed and is considering. We ask the Board to consider an enhanced process where major policy issues such as budget can be more thoroughly examined before the Board finalizes the revised DSM framework.

GEC is concerned that the Board's March 29th indication that it intends to freeze Gas DSM budgets for three years will sacrifice hundreds of millions if not billions of dollars of customer benefits for both participants *and non-participants* and will result in needless environmental insult and widespread health damage based primarily on a conclusion about cross-subsidy that in GEC's view was not supported by an adequate public review[1]. While Board Staff does not speak for the Board, the fact that its evidence and submissions supported a doubling of budget is illustrative of the parties' sense of what was under discussion given the government's directions and policy pronouncements favouring increased DSM. We do not believe that most participants contemplated the Board taking such a major shift in direction. The Board had not signalled its concern with this apparently determinative issue and accordingly, it was barely addressed by most submissions nor was an adequate record produced.

The four questions posed for further comment proceed from that earlier conclusion and we are thus concerned that the discussion of the four questions is constrained by presumptions and conclusions based on an inadequate record. Had GEC understood that the Board was contemplating a reversal of the trend toward increased reliance on conservation, GEC would have sought data and commented on such matters as the potential for amortization of DSM expenses to address first year rate impacts, the empirical evidence for widespread participation over time which would address cross-subsidy concerns, and the extent of system savings enjoyed by non-participants which also offsets any cross-subsidies. Further, as set out below, the added issues raise numerous, complex and interrelated questions to which we cannot do justice in a short written comment without the opportunity for interrogatories and

[1] Pollution Probe has pointed out that "The OEB's own professional staff had proposed that Enbridge's and Union's DSM budgets be increased by a total of $61 million and $28 million respectively between 2012 and 2014. In 2009 for every dollar that Enbridge spent on DSM, its customers' bills were reduced by $8.50. In 2010 for every dollar that Union spent on DSM, its customers' bills were reduced by $12.70. Therefore if the OEB had approved its Staff's budget proposal, customers' bills would have been reduced by approximately an additional $870 million." GEC has noted in its earlier submission that the Staff suggestion arises from Concentric data on leading jurisdictions that is from 2008. Updated information suggests that twice the level Concentric suggested is cost-effectively being targeted in leading jurisdictions. Therefore the loss to customers likely exceeds $1.5 billion.

discovery, and with the limited funding available. It is in that context only that we offer the following observations on the specific issues:

1. Low Income DSM

The Board posed several questions related to the budget levels appropriate for low income DSM, the type of programs most appropriate for low income customers and how coordination between gas and electric efforts should be coordinated.

With respect to budgets, equity considerations would suggest that the portion of the total DSM budget that is allocated specifically to low income customers should be *at least* equal to the portion of revenues estimated to be received from the gas companies. Several factors would argue for an even greater proportion. First, investment in low income specific programs has been relatively modest over the past 15 years. Low income customers are unlikely to participate in DSM programs that do not specifically address their unique market barriers. They are therefore likely to have been significantly underserved in the past. Thus, spending more than a proportional share of utility revenues on low income customers in the coming years could legitimately be argued to be a fair “truing up” of long-term DSM spending. Second, the market barriers to investment in efficiency are greater for low income customers. Since the purpose of DSM is to over-come such barriers, one could argue that disproportionately greater emphasis should be placed on this market. Third, well-designed low income programs typically produce benefits to all rate-payers – in the form of reduced credit and collection costs – that do not accrue (or not nearly as substantially) from other programs. Such benefits have not historically been captured in the estimates of avoided costs that are used to assess DSM cost-effectiveness, but should be.

With respect to the type of programs and measures which should be promoted to low income customers, GEC believes that there is compelling evidence that there should be a heavy emphasis on whole house weatherization (e.g. air leakage reduction, duct sealing and insulation and attic/wall/basement insulation). These kinds of measures deserve priority in DSM planning because they are completely discretionary investments that will likely never be made without DSM programs or regulatory mandates. In contrast, inefficient showerheads, inefficient furnaces and other similar devices which can be targeted by DSM programs for early replacement will eventually be replaced with a more efficient unit when they break down. That may take a while, but it will eventually happen. Second, to significantly affect payment problems DSM programs must achieve relatively large levels of savings. That can only be accomplished through comprehensive – or “deep” – treatment of retrofit efficiency opportunities. Third, once a DSM program is in a home, it can create “lost opportunities” if it does not address all cost-effective efficiency investments. That is, the cost-effective opportunities left behind will likely be lost for a very long time (if not forever). This is because the fixed transaction costs of recruiting the customer, travelling to the home, conducting an efficiency assessment, recording data, making quality control visits, etc. are non-trivial. Once you have already incurred such costs to treat a customer, the marginal cost of each efficiency measure is simply the cost of the measure itself. Many measures which are cost-effective today in that context may not be cost-effective in the future if they had to support not only their own cost but also the fixed transaction costs associated with a later visit. We also note that the low income Conservation Working Group with the Board chartered in 2009 recommended that any increase in low income DSM spending be focused on deeper measures.

Concerns about cross-subsidization associated with promotion of deep retrofits for low income customers warrant careful analysis and debate – much more than is possible in the context of brief comments that the Board has essentially requested in this proceeding. GEC is unaware of any evidence that has been put forward that such cross-subsidization – after accounting for system wide benefits, including reductions in credit and collection costs – is substantial enough to justify concern, or even the presumption of a positive number (studies in other jurisdictions have suggested that the reduction in credit and collection costs alone can offset the costs of some low income programs)[2].

With respect to coordination between gas and electric low income DSM, GEC would argue that savings per dollar of spending could be maximized if there were a single, province-wide low income program. However, the ability for GEC and other stakeholders to advocate for joint delivery or even greater coordination has been frustrated by the fact that there is no mechanism for stakeholder input on electric DSM/CDM programs that is akin to the regulatory mechanisms for gas DSM. Thus, the electric low income initiatives effectively get announced as a "fait accompli".

2. Commercial and Industrial Programs

The Board's questions regarding commercial and industrial programs focus on whether financial incentives to invest in efficiency measures that are commonly part of DSM programs create inappropriate competitive advantages for participants and, by extension, whether programs for this sector should be more informational in nature. GEC strongly opposes any proposals to arbitrarily reduce the use of financial incentives or increase the emphasis on audits and/or other informational tools for this market. Decisions on which tools to use should be left to the discretion of the utilities, based on their assessment of the combination of strategies most likely to lead to greater investment in cost-effective efficiency measures. Any suggestions that financial incentives should be reduced or eliminated to preclude the possibility of cross-subsidization are fundamentally flawed and unsupported by available evidence[3].

To begin with, there is no evidence that financial incentives for commercial and industrial customers create any economic hardship on non-participants. No analysis of rate-impacts from such measures has been put into evidence in this proceeding. The last comprehensive analyses of rate impacts of which we are aware were conducted by Enbridge in DSM proceedings several years ago. In more than one case, the Company estimated that rate impacts were actually negative over the life of the measures![4] Moreover, those analyses did

[2] These considerations support a higher L.I. budget, deeper measures and broader cost allocation among customer classes.

[3] GEC is also concerned that the Board's edict on budgets will pre-determine this issue and reduce the economic effectiveness of DSM.

[4] Enbridge estimated that rates impacts would be -0.07% in EBRO-2005-0001 (I/9/3), -0.1% in RP-2003-0203 (I/11/3) and -0.16% in RP-2001-0032 (L/6/1).

not account for rate benefits of both reductions in credit and collection costs or the impact on commodity costs known as Demand Reduction Induced Price Effects (DRIPE).

It is also worth noting that rate impact assessments in Ontario have historically had three components: (1) DSM program spending which increases rates; (2) lost revenues which increase rates (because fixed costs must be spread over a small sales base); and (3) avoided capital expenditures that reduce rates. Studies of rate impacts in the past have suggested that when they are positive, it is primarily if not entirely due to the lost revenues impacts, which tend to be much more important than program spending (put another way, the impacts of program spending are often more than offset by the capital savings). Lost revenues occur regardless of the reason efficiency investments are made – whether because of financial incentives, education, codes and standards, or just the customers own volition. Thus, any party which expresses concern about rate impacts on non-participants due to DSM should, by extension, be opposed to any efforts (even low or no-cost 'education' efforts) to promote efficiency. In GEC's view (and the Board's too, we would hope), such a position would be completely inappropriate given the enormous potential economic benefits to consumers, the energy system and the environment.

GEC also contends that cross-subsidization is inherent in regulated electric and gas systems. Every time a gas company needs to add additional storage capacity, for example, all rate-payers pay for it. The Board does not ask just the new customers or the existing customers whose added load led to the need for the expansion to pay for it.

Finally, at least for large commercial and industrial customers, GEC suggests that arguments that DSM spending, or the financial incentive portions of DSM spending, inappropriately give advantage to some customers at the expense of others completely miss the point that the principal competitors of Ontario's large customers are not based in Ontario. Rather, they are all over the world. In that context, any artificial limits on DSM spending or program designs for such customers actually has the effect of making them less competitive, particularly relative to jurisdictions who do not impose such constraints.

3. Education and Training

The Board has asked what role the gas utilities should play in providing education and training programs. DSM practitioners have long known that, by themselves, education and training efforts accomplish little. Education and training can be important in promoting efficiency typically only if pursued as a part of a larger strategy designed to address, in an integrated way, all barriers to efficiency investment. The relative importance will vary from market to market, depending on the nature and severity of the barriers in each market. Thus, GEC strongly recommends that the Board not be prescriptive about how much or what kind of education and training efforts the gas utilities pursue. Rather, such decisions should be left to the utilities as they assess the barriers and opportunities in each market for each set of efficiency measures they intend to promote. The level of effort required to explore this issue in sufficient detail to address the Board's interest at the level of individual efficiency markets is not possible within the confines of the Board's direction to stakeholders responding to its questions.

4. Research and Development

The Board has asked about the role the gas utilities should play in R&D and pilot programs, as well as whether the utilities should work to promote further changes in codes and standards for heating equipment.

GEC submits that gas utility investment in R&D should be limited to cases in which they are part of a larger, multi-jurisdictional effort (i.e. in which costs are being shared across multiple jurisdictions). The market for efficiency products is global. Ontario is usually too small, by itself, to warrant covering the full cost of an R&D effort.

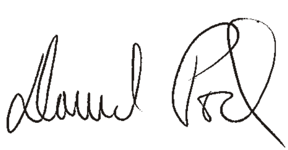
On the other hand, it would be very appropriate for the gas utilities to regularly introduce and test pilot programs, since valuable lessons can be learned from such programs about how best to introduce and/or promote efficiency products and services to Ontario customers. Put another way, unlike technology R&D which needs to lead to the development of a product that can have a global appeal (or it is not likely to be introduced to the market), pilot programs can be necessary to test Ontario-specific hypotheses.

Regarding codes and standards, GEC would support suggestions that the gas utilities work with industry players to make advancements.[5] This is more likely to yield benefits in the area of codes which are province-specific, than in the area of equipment efficiency standards which typically require a broader market base to attract interest of manufacturers.

Conclusion

In conclusion, GEC is distressed to witness the Board effectively foreclosing billions of dollars of customer benefits and immense environmental and health damage externality reductions, without an adequate evidentiary foundation. The Board's retreat from the trend of increasing conservation appears to be contrary to explicit Government policy and will likely impose more expensive GHG reduction costs on society. We urge the Board to reconsider its process and allow these matters to be fully examined and debated before finalizing the gas DSM framework for the 2012-14 period.

All of which is respectfully submitted, this 21st day of April, 2011



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[5] We note that it is often measure incentives that first cause application and industry acceptance of a technology, paving the way for acceptance of improved standards. The Board's proposed budget constraint could thus indirectly retard such progress.