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File No. 339583-000030

April 21, 2011

By Electronic Filing and By Email

Kirsten Walli
Board Secretary
Ontario Energy Board
27th Floor, 2300 Yonge Street
Toronto, ON M4P 1E4

Dear Ms. Walli

**Re: Demand Side Management (“DSM”) Guidelines for Natural Gas Utilities
Issues for Further Comment
Board File No. EB-2008-0346**

I am writing on behalf of Canadian Manufacturers & Exporters (“CME”) to provide further comments on the DSM Guidelines for Natural Gas Utilities. Specifically, we are providing further comments on the issues raised by the Board in its correspondence of March 29, 2011.

These further comments are intended to supplement CME’s previous submissions. Within this context, CME wishes to emphasize some general principles that have guided CME’s response to the Board-identified issues.

First, CME supports DSM conducted by the Natural Gas Utilities. So long as the benefits of DSM demonstrably outweigh the costs of DSM, then this is an activity that should continue to be undertaken.

Second, the Board should continue to balance the costs of DSM with rate affordability. This type of balancing exercise should not be limited to an isolated assessment of only the rate impact of DSM on the natural gas distributors. Rather, this balancing exercise should include a broader total bill impact analysis of the costs of all conservation activities that impact customers of both electricity and gas utilities. Such an analysis would be consistent with the Board’s recent consideration of total bill impact analysis in the Renewed Regulatory Framework for Electricity Consultation (EB-2010-0377-0379), and would permit the Board to ensure that the global costs for DSM and CDM in Ontario remain appropriate

Finally, CME urges the Board to conclude that effective DSM will best be achieved by providing the natural gas utilities with flexibility in the way DSM is delivered. To this end, flexibility will allow the natural gas utilities to develop programs that address ever-changing market barriers, while also ensuring that distributors have the ability to quickly respond to changing economic conditions. Moreover, flexibility in the DSM Guidelines will also ensure that Board has the ability to balance rate affordability with the objectives of cost-effective conservation activities.

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

CME urges the Board to conclude that the low-income DSM budget should continue to be recovered from the residential rate class.

In the Board's generic DSM hearing (EB-2006-0021), the Board confirmed that the cost allocation of DSM in rates would be on the same basis as the budgeted DSM spending by customer class (Decision with Reasons, page 9). Therefore, rate classes currently pay only for DSM spending in their respective rate class. Because low-income customers reside in the residential rate classes, the residential rate class currently funds low-income DSM programs.

In the DSM generic hearing, the Board also affirmed that DSM shareholder incentive amounts recovered through the shared savings mechanism ("SSM") should be allocated to the rate classes in proportion to the net TRC benefits attributable to the respective rate classes. CME submits that this approach by the Board is entirely consistent with the cost allocation principle that costs should be allocated to customer classes in a manner that reflects cost causality.

Cost causality remains a guiding principle to the establishment of just and reasonable rates. This Board has repeatedly recognized the importance of cost causality. For instance, in a report of the Board on the application of cost allocation for electricity distributors (EB-2007-0667), the Board wrote as follows:

The establishment of specific revenue requirements through cost causality determinations is a fundamental ratemaking principle. Cost allocations key to implementing that principle. Cost allocation policies reasonably allocate the costs of providing service to various classes of consumers and, as such, provide an important reference for establishing rates that are just and reasonable.

Cost causality, as an over-arching principle, should continue to be applied to recovery of DSM budgets. To have rate classes other than the residential rate class fund low-income programs is entirely inconsistent with cost causality.

Furthermore, CME submits that where the Board intends to deviate from the cost causality principle, it should not do so without a full record that can be tested. Such a record does not exist before the Board at this time. Therefore, if the Board is inclined to permit

recovery of low-income DSM costs from non-residential rate classes, it should not do so within the context of this consultation process. Rather, it should commence a process that establishes a full evidentiary record that is subject to careful scrutiny by all interested stakeholders.

Moreover, intervenors that represent non-residential rate classes such as CME, have not, to date, actively participated in the establishment of the low-income programs. To the contrary, CME has consistently confirmed that it is not participating in the low-income consultations and other related Board processes because its constituent rate classes are not funding the low-income programs. If the Board now decides that non-residential rate classes should, in part, fund low income programs, then the principles of procedural fairness and natural justice demand that the non-residential rate classes be provided an opportunity to review the appropriateness of the current low-income programs, as well as the associated costs.

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?**

Subject to the comments below, CME generally supports the continuation of DSM programs for industrial and commercial customer classes. While DSM programs with significant incentives may create competitive advantages for some of the participants, CME notes that, in Ontario, such programs are made available to all equivalent customers.

The majority of CME's members reside within the commercial or small industrial rate classes. The feedback that CME receives from this segment of its membership is almost entirely supportive of DSM programs. In CME's experience, the businesses within the commercial and small industrial rate classes do not have the expertise or resources to undertake sophisticated conservation activities in the absence of the type of programs offered by gas DSM. For this reason, the natural gas utilities should continue to offer an array of DSM programs to these rate classes.

CME also has some members who operate very large industrial enterprises. These members would, for instance, be customers in Union's T1 or Rate 100 rate classes. CME is concerned about the appropriateness of affording competitive advantages to one large industrial customer over another through the receipt of utility funded custom projects. Many of these customers have the resources and experience to undertake their own conservation activities. CME urges the Board to establish a process to fully assess whether gas DSM should continue to be offered to and funded by the continuation of gas DSM for

the largest industrial rate classes. Within this context, if the Board is inclined to continue to approve gas DSM for large industrial rate classes, then the Board should also consider the appropriateness of permitting large industrial customers to opt-out of funding and receiving DSM programs.

DSM is important to the smaller rate classes. For this reason, if the Board no longer approves DSM programs for large industrial customers, CME strongly supports the continuation of DSM offered to all of the commercial and small industrial rate classes.

With respect to the type of programs that are appropriate to the commercial and small industrial rate classes, CME attaches its report of March 2010 entitled "Advancing Opportunities in Energy Management in the Ontario Industrial and Manufacturing Sector". This report, which was prepared by CME in association with Stantec Consulting, Marbeck and Odyna, and which Union Gas and Enbridge Gas Distribution provided significant contributions, provides both energy management performance benchmarking and an energy management potential analysis. CME submits that the information in this report provides an assessment of the energy management opportunities available to commercial and industrial sectors, many of which could be delivered through DSM activities.

CME believes that there is a role for the natural gas utilities with respect to monitoring consumption, data analysis or benchmarking energy use in buildings and industrial processes. As CME has previously stated, it supports conversation activities so long as the benefits provided demonstrably outweigh the costs. In fact, CME is a proponent of increased monitoring and verification of DSM programs because such activities permit greater transparency of the benefits and costs of the particular activity.

At this time, CME is not in a position to state whether DSM programs in the industrial and commercial sector should focus more on energy audits, efficiency training or case studies to highlight best practices and new technologies rather than financing equipment and installation costs for specific DSM programs. This type of assessment should be undertaken when assessing a utilities proposed portfolio of DSM programs for a given year.

CME is of the view that DSM programs should be developed to overcome identifiable market barriers. As such, it is not possible to determine, in the abstract, whether DSM programs should focus more on energy audits and efficiency training to highlight best practices and new technologies rather than financing equipment and installation costs for specific DSM programs. To the contrary, CME believes that programs should be designed to overcome identifiable market barriers. Some market barriers may be best overcome by energy audits and efficiency training to highlight best practices, while other market barriers may be best overcome by financing equipment and installation costs. This determination should be made when each utility develops its overall portfolio of DSM programs, and not in advance and in the abstract.

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?**

CME is also not in a position to comment on the natural gas utilities' role, if any, in providing natural gas DSM education and training programs funded through distribution rates, and if so, whether they should focus on targeting contractors, trades and professional associations. CME maintains that this type of assessment should be undertaken when assessing a utilities proposed portfolio of DSM programs for a given year.

Again, CME is of the view that DSM programs should be developed to overcome identifiable market barriers. As such, it is not possible to determine, in the abstract, whether there exist market barriers that could be overcome by education and training programs. If a natural gas utility identifies a market barrier that can be overcome by education in a cost effective manner, that utility should have the flexibility propose such a program. Such a determination is best made when each utility develops its overall portfolio of DSM programs, and not in advance and in the abstract.

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?**

Finally, there may be times when R&D or a pilot program is appropriately funded through DSM budgets. That said, such activities should be only be undertaken where they address an identifiable market barriers, and are directly related to an existing or potential DSM program. For instance, it may make sense to undertake a limited pilot program to test a potential DSM program before investing significant resources in that program.

CME suggests that it is not possible to determine, in the abstract, whether there exist R&D and/or pilot programs that should be funded by distribution rates. Natural gas utilities should have the flexibility to bring forth such activities for consideration by the Board. The appropriateness of the particular R&D or pilot program would best be assessed at that time.

If you have any questions or concerns, please contact me at your convenience.

Yours very truly

A handwritten signature in black ink, appearing to read 'VJD', with a long, sweeping horizontal line extending to the right.

Vincent J. DeRose
VJD/kt

c. All Interested Parties
Paul Clipsham (CME)

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