

**Ontario Energy
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**Commission de l'énergie
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BY E-MAIL AND WEB POSTING

June 30, 2011

**To: All Rate-Regulated Natural Gas Distributors
All Participants in Consultation Processes EB-2008-0346 and
EB-2008-0150**

**Re: Demand Side Management Guidelines for Natural Gas Utilities
Issuance of DSM Guidelines**

Today, the Board issued its “Demand Side Management Guidelines for Natural Gas Utilities”. Informed by the extensive comments received since the beginning of this consultation, and the Board’s most recent letter of March 29, 2011, the Board has revised the Demand Side Management (“DSM”) Guidelines. The Guidelines set out the DSM framework that should be used by natural gas utilities in developing their DSM plans for the next three years.

Background

On January 21, 2011, the Board issued for comment a Staff Discussion Paper on Revised Draft Demand Side Management Guidelines for Natural Gas Utilities. Written comments from 15 stakeholder groups were received.

On March 29, 2011, the Board issued a letter informing participants of the Board’s views and considerations regarding the role of ratepayer funded DSM activities. Written comments from 26 stakeholder groups were received.

DSM Framework

The Board acknowledges its important role in supporting and promoting conservation efforts in both the natural gas and electricity sectors. In exercising that role, the Board must also be mindful of impacts on consumers. It is the Board’s view that it has achieved the appropriate alignment of these two mandates through the issuance of these revised Guidelines.

In considering appropriate revisions to the DSM guidelines, the Board considered the evolution of both DSM and conservation and demand management (“CDM”) since 1995, stakeholder comments received as part of the consultation process and Board staff comments.

Since DSM funding began in 1995 and up to 2011, the Board has approved approximately \$385 million in spending by the natural gas utilities. Between 2012 and 2014, Board-approved natural gas DSM spending could total close to \$200 million. In determining the appropriate level of funding for natural gas DSM activities, the Board has also considered funding that will be available for CDM programs. Over the next four years, the OPA is expected to spend approximately \$1.4 billion to fund CDM programs. On a combined basis, over \$1.6 billion will be available to fund various electricity and natural gas conservation initiatives across Ontario; funding that will be paid for by Ontario electricity and natural gas consumers.

The Board is also mindful of stakeholder concerns that DSM programs for large industrial customers may no longer be appropriate in today's environment. The Board agrees that large industrial customers possess the expertise and incentive to undertake energy efficiency programs on their own. As such, the Board has indicated that ratepayer-funded DSM programs for large industrial customers, as outlined in Section 8.2 of the Guidelines, will not be a required component of the overall DSM program.

The revised Guidelines acknowledge the extensive funding that has been provided since 1995. They also address the importance of continuing to provide adequate funding, while considering total bill impacts to all consumers, along with the need to ensure a suite of programs for low-income consumers that are not otherwise reached by the growing availability of market driven activities. In addition, the revised Guidelines take into account the expertise of the utilities in designing appropriate programs in response to consumer needs.

Accordingly, the revised Guidelines provide for the following changes:

1. A three-year term that maintains the current level of funding inflated annually, subject to item (3) below;
2. A minimum of 15% of the utility's total DSM budget should be allocated to low-income programs;
3. The option to increase the total DSM budget by as much as 10%, provided that this incremental spending is allocated to low-income programs;
4. The low-income DSM budget will be funded from all rate classes;
5. Optional large industrial DSM programs; and
6. Utility financial incentives that maintain the current level of \$9.5 million, adjusted annually for inflation; and which are calculated in the same manner as lost revenues.

Next Steps

The natural gas utilities are expected to develop their DSM plans in accordance with the DSM Guidelines, and submit them to the Board for approval no later than September 15, 2011.

The purpose of this consultation was to establish, through guidelines, a revised DSM framework to be used by the natural gas utilities in developing their next generation DSM plans. The issuance of the DSM Guidelines completes this consultation process.

The Board thanks all participants for their contributions. The Board will address the issue of cost awards for this consultation by separate correspondence to be issued shortly.

All documents related to this consultation are available for public inspection on the Board's website at www.ontarioenergyboard.ca and at the office of the Board during normal business hours. Please contact Lenore Dougan at 416-440-8141 or by e-mail at GasDSM@ontarioenergyboard.ca with any questions. The Board's toll free number is 1-888-632-6237.

Yours truly,

Original Signed By

John Pickernell
Board Secretary

Attachments: Demand Side Management Guidelines for Natural Gas Utilities