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October 15, 2014

Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, ON M4P 1E4

Attention: Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Low-Income Energy Network Comments**
**Board File No. EB-2014-0134 - Developing a New Demand Side Management Framework for Natural Gas Distributors**

Enclosed please find LIEN's comments on developing a new Demand Side Management Framework for Natural Gas Distributors.

Yours truly,

Matt F. Gardner

Matt Gardner

Encl.

Document #: 778404

LIEN's submission is organized by topic and refers to the related material in the Draft Filing Guidelines to the Demand Side Management Framework for Natural Gas Distributors ("Draft Guidelines") and to the Draft Report of the Board Demand Side Management Framework for Natural Gas Distributors ("Draft Report"), as appropriate.

## Guiding Principles of Natural Gas DSM

LIEN supports the guiding principles described in the Draft Report, subject to the following modifications:

- **Achieve all cost-effective DSM that results in a reasonable rate impact.** The Minister in the Directive to the OEB made it clear that the government objective is to achieve all cost-effective DSM. In achieving that objective the Board shall have regard to other factors as the Board considers appropriate. LIEN concurs that it is reasonable for the Board to temper all cost-effective DSM based on a determination of avoidance of undue rate impact. However, this tempering is part of the balancing of the principles and therefore, should be part of the explanation, not the principle. Likewise a budget restriction should not be part of the principle. The budget should be set once the level of cost-effective DSM that does not create an undue rate impact is determined, rather than the budget determining the level of cost-effective DSM for a given period of time. For all of the above reasons, the principle should be revised as follows (principle in bold and the additional explanation in italics):

  > "***Achieve all cost-effective DSM.*** *The gas utilities' overall DSM portfolio and individual programs should aim to achieve all the cost-effective DSM available in their respective franchise areas in a manner that will result in a rate impact that is not undue."*

- **Ensure low-income programs are accessible across the province.** LIEN concurs with this principle; however, LIEN finds the explanation regarding this principle – "Low-income programs should be screened at lower thresholds than other programs, as determined by the Board, and be available across the province" - to be necessary, but not sufficient. LIEN notes that the principle of "minimize lost opportunities when implementing energy efficiency upgrades" and the principle that "programs should be designed to pursue long-term energy savings" are strongly linked to the accessibility principle for low-income programs. It will not be possible to minimize lost opportunities in the low-income sector, accessing long-term energy savings, without ensuring that the threshold is sufficiently low such that these savings are achieved. Because of this strong linkage, LIEN recommends that the low-income principle be revised to include specifically these linkages as follows (principle in bold, explanation in italics):

> **"Ensure low-income programs are accessible across the province.** *Low-income programs should be screened at lower thresholds than other programs, as determined by the Board, and be available across the province. The threshold should be sufficiently low such that it minimizes lost opportunities, in particular, lost opportunities from long-term energy savings not being achieved, when implementing energy efficient upgrades."*

In addition to the principles already proposed by the Board subject to the above modifications, LIEN recommends the addition of the following principles:

- **The DSM Portfolio provides broad natural gas consumer access to DSM.** The DSM Portfolio should allow as many natural gas consumers as reasonably possible the opportunity to participate and share in the benefits of DSM. This will achieve bill reductions for the largest numbers of gas users and minimize non-participant subsidization of DSM.

- **Take a "whole home" or "whole facility" approach to DSM.** This means that for each dwelling and facility where DSM opportunities are explored, emphasis would be placed on a comprehensive assessment of energy savings opportunities and the development of a plan to achieve them. Such an approach is consistent with the Board's principle to minimize lost opportunities, and emphasizes longer term savings, but with appropriate attention to lower cost/no cost opportunities, and fostering a platform for collaboration between electricity and gas utilities. This approach would also help to ensure that all cost-effective DSM was identified and addressed in an action plan.

## Setting the Natural Gas 20-Year Target

The Board has put forward two options for setting the 20 year DSM target: Option 1 – the gas utilities develop and propose long-term natural gas savings targets based on most recent potential studies; and Option 2 – the Board develops long-term natural gas targets based on an assessment and analysis of achievable potential by the Board.

**LIEN supports Option 1, with the addition of one modification**, which is that the gas utilities develop the targets based on most recent potential studies **and in consultation with stakeholders**. The gas utilities have the benefit of approximately 20 years of experience in identifying DSM potential and capturing it through appropriately designed and implemented programming. Stakeholders have participated effectively in the consultations in this process during that period, having also amassed considerable expertise in their areas of interest, and their review, analysis and discussion with the gas utilities has led to better DSM plans and larger savings achievement than would otherwise have occurred. This highly effective process should continue. The Board should continue its role, as was established in the earliest days of DSM in E.B.0. 169-III and as continues into the current framework, in reviewing and approving, through the hearing process, the DSM plans, budgets and targets developed by the gas utilities in consultation with their stakeholders.

## Setting the Annual DSM Budget

The Board has put forward two options for how annual DSM budgets should be developed: Option 1 – the gas utilities develop and propose DSM budgets which are a product of analysis conducted relative to the amount of funding required to meet the long-term natural gas savings target; and Option 2 – the Board establishes a guideline for maximum DSM budget levels which considers rate impacts, but will allow the gas utilities to pursue significant natural gas savings between 2015-2020.

**LIEN supports Option 1, with the addition of one modification,** which is that the gas utilities develop the budgets based on their analysis **and consultation with stakeholders.** Based on their 20 years of experience, the gas utilities are in the best position to determine their costs and propose an associated budget to meet their savings targets in consultation with stakeholders, which can then be scrutinized thoroughly in a hearing process, with the Board being the decider on approval.

In presenting the analysis of Option 2, the Board is relying on jurisdictional comparatives. While these may provide some insight, they do not provide "an apples to apples" comparison, and should not be relied upon when setting Ontario policy if better information is available. LIEN submits that there is better information on which the Board should rely in determining the budget, if the Board should decide that it is in the public interest to go forward with Option 2.

Using such indicators does not provide appropriate comparators for setting the DSM budgets. Such an approach does not fully take into account the unique jurisdictional aspects of Ontario. It does not take into account the high importance that the Ontario government is placing on conservation as being the first resource to tap to the fullest – all cost-effective DSM. Moreover, it does not take into account the level of maturity of the Ontario DSM market. While there is more cost-effective DSM available than has been tapped over the last 20 years, the cost to achieve a cubic meter of gas savings in Ontario is increasing as much of the relatively inexpensive DSM has been achieved. With the Board's emphasis on long-term savings[1], the budget will need to be higher as well, since the measures associated with achieving this type of savings tend to be more expensive. For all these reasons, LIEN submits that a jurisdictional analysis would tend to significantly understate budget requirements. This might be overcome with further

[1] The Board is of the view that the gas utilities should strive to include a large portion of technologies and energy efficient measures that produce natural gas savings over a longer period of time as opposed to those which result in short term benefits. (p. 1, Draft Guidelines)

detailed analysis of the particular jurisdictions and adjustments made to take account these differences. However, it is likely to be cheaper and more effective to choose Option 1, wherein the gas utilities propose a budget in consultation with stakeholders, which is then adjudicated in a hearing process for approval by the Board.

## Shareholder Incentives

The Board has put forward two options for shareholder incentives: Option 1 – incentive determined as percentage of DSM budget; and Option 2 - pay for performance and incentive, with funding recovery and incentive through a single rate.

**LIEN is not supportive of either Option 1 or Option 2.** Much more information on how Option 2 would work is needed to determine its workability. The level of incentive would need to be high enough to overcome the major risks to the utility of choosing this option, and it is not clear how such an approach would achieve greater savings at a lower cost.

LIEN of the view that what is important is to ensure that the incentive is high enough to compete with the yield of other utility investments competing for senior management attention. This is essential to ensure that the gas utility's senior management considers DSM to continue to be a competitive and worthwhile investment of resources. As pointed out by the Board, DSM is a voluntary activity of the gas utilities. Therefore, it is even more important that aggressive DSM is aligned with an appropriate shareholder reward. At minimum, given the success of the current incentive levels to drive aggressive DSM, the incentive should not be reduced from its current levels. A larger incentive may be necessary to keep DSM a competitive investment choice for the utility, as in a mature industry, such as gas DSM in Ontario, it becomes harder and more expensive to extract savings per dollar invested.

## Program Types

The Board expects the gas utilities to include certain elements (listed in Section 2 Program Types of the Gas Guidelines) and program types in their DSM Plans. LIEN provides the following comments on elements of particular interest:

- **Provide a greater level of customer-specific educational information and data to help customers use natural gas more efficiently.** LIEN concurs with the inclusion of this element, but notes that this element should be coupled with the addition of no cost/low cost DSM measures (which typically have shorter duration of benefits than other types of measures) to enable consumers, especially low-income consumers (no cost measures) to mobilize their learnings into action and achieve savings. As a result, the portfolio should contain these types of measures coupled with educational tools and, in particular, there should be emphasis on this type of coupling for the low-income consumer. As a result, the element should be modified as follows (part in italics is LIEN's addition;) p. 2, Draft Guidelines):

> **"Provide a greater level of customer-specific educational information and data to help customers use natural gas more efficiently;**
> The gas utilities should undertake initiatives that enable their customers to better understand their current usage levels through customer-specific information. By increasing the amount of customer-specific natural gas usage information available to a customer, they are able to better take advantage of available energy efficient technologies and manage their energy usage. *The educational information on gas usage should be coupled with education on no cost/low-cost measures and incentives, as appropriate, and in the case of low-income consumers also with free installed low-cost measures, that enable customers to act on their learnings and achieve gas savings.*"

## Resource Acquisition, Market Transformation, Pilots, Large Volume Customers

**LIEN continues to support the DSM portfolio containing resource acquisition, market transformation, and pilot programs.** LIEN also urges the Board, consistent with the principle to provide broad natural gas consumer access to DSM to allow as many natural gas consumers as reasonably possible the opportunity to participate and share in the benefits of DSM, to **make DSM programming designed for large volume customers mandatory.** There is untapped potential gas savings with these customers that are attractive as their cost to achieve is relatively low compared to other sectors (dollars invested per cubic meter saved). Moreover, requiring that this sector have the opportunity to access DSM designed for the sector will improve harmonization with CDM and facilitate collaboration between gas and electric utilities.

## Evaluation Process

LIEN is concerned that the Board may be advocating major change to an evaluation process that, overall, is working well. Over time the evaluation process has become more scientifically rigorous, thorough and consultative, and has led to savings results that are more reliable. **If the Board wishes to be more hands-on to provide increased scrutiny and rigor, then LIEN supports the Board (Board Staff) taking on a facilitative and chair role in the Audit Committees of each of the utilities. This would give the Board a seat and leadership role at the table throughout the process. LIEN also supports the utility's auditor retaining the CPSV experts.**

**In addition, LIEN supports an addition to the Draft Guidelines, which mandates regular process and impact evaluations of the suite of DSM programs, perhaps with a complete cycle of these evaluations being done every three years. This would enhance the current evaluations, which focus on energy savings, and would support the Board's objective of fostering continuous improvement.**

## Program Screening and Low-Income Program Screening

### SCT and TRC

LIEN supports the use of a Societal Cost Test (SCT) for screening DSM programs. This helps to ensure that a broad range of societal benefits such as greenhouse gas (GHG) reductions and other societal benefits are taken into account. This was the initial approach sought by the Board in E.B.O. 169-III; however, the test morphed into a Total Resource Cost Test over time, in part because agreement could not be reached on an appropriate adder for GHG reductions, other pollutant reductions and other benefits. Use of the SCT was part of the Board's precautionary approach to GHG emissions and their role in climate change, which pre-dated today's IPCC Panel Reports, scientific consensus, and Ontario government policy on reducing climate change impacts.

Since the 1993 E.B.O 169-III Board Report, some provinces have gained experience with a broader test than a traditional TRC. For example, in British Columbia, FortisBC adds a value for non-energy benefits for programs that do not pass the TRC. In Manitoba, Manitoba Hydro uses a 10% adder for GHG reductions.

**For all these reasons, LIEN supports the use of a SCT as the screen for DSM programs, including low-income programs, thereby replacing the TRC.**

**In the alternative, if the Board determines the continued use of the TRC, then a more appropriately calculated TRC is necessary. In addition to the standard inputs now used by the gas utilities for calculating the TRC, it should also include, at minimum, the following:**

- **An adder for GHG reductions**
- **Other environmental compliance avoided costs**
- **Avoided transmission and distribution system costs**
- **Wholesale market price suppression effects[2]**
- **Avoided costs related to reduced risk from natural gas price volatility**
- **Non-energy utility benefits (could be an adder or financial quantification)**
- **Non-energy participant benefits (could be an adder or financial quantification).**

### Low-Income Program Screen

Should the Board continue with a traditional TRC, LIEN supports a further adder to the .7 for the low-income TRC threshold to more effectively avoid the lost opportunities resulting from weatherization retrofit and other retrofit opportunities that are not being captured. **LIEN recommends an adder that has the net result of a .5 TRC threshold; this would be sufficient to capture a significant amount of the current**

[2] For a more detailed discussion of these effects, please see Toronto Atmospheric Fund. 2014 OEB Gas DSM Framework Issue Paper: Cost-Effectiveness Screening.

**lost opportunities and would be more in line with achieving the Board's objective of focusing on longer term savings.**

## Low-Income Programs for the Private Rental Market

LIEN is most concerned that the Draft Guidelines do not achieve a key objective and point of agreement from the consultations on the Draft Guidelines, which is to include the low-income private rental market sector in low-income DSM.

While the addition of "Be provided to private low-income, multi-residential buildings throughout the 2015 to 2020 term" provides clarity that the Board intends to have this sector included, without changes to update the eligibility requirements now in the 2011 Guidelines and reproduced in the proposed new Draft Guidelines that address the unique eligibility requirements for this sector, this sector will continue to be excluded.

The updates need to address the significant learnings from the excellent work that the gas utilities have been doing in this sector, through research and piloting by Enbridge in Toronto in collaboration with the City of Toronto and United Way, and research by Union Gas. This work has been done in consultation with the joint utility low-income consultation group and individual low-income working groups of the utilities.

### *Current Income Eligibility Criterion is Inappropriate*

Extensive research and field work done by United Way as part of the low-income multi-residential private rental market pilot of Enbridge revealed that a different approach to income screening was needed instead of obtaining individual tenant income-related information. This is due to the impracticality of seeking such information directly from tenants. Moreover, using the 40% threshold in a neighbourhood blitz approach is inappropriate for this market as it is not a sufficiently fine screen to ensure that non-low income buildings are being excluded.

### *Utility Bill Payment Responsibility is Inappropriate*

This criterion requires that participants must pay their own utility bill. In Ontario, most tenants in multi-family units in the private rental market do not pay their gas bills directly. Moreover, most low-income people in Ontario are tenants in multi-family units in the private rental market. As a result, this criterion excludes most low-income natural gas consumers in Ontario, which LIEN hopes is not the intention of the Board.

### *Building Eligibility Criterion is Inappropriate*

This criterion only refers to tenants that pay their gas bills in Part 9 buildings (multi-residential buildings) as being eligible for in-suite natural gas DSM measures. As previously discussed, this criterion excludes most of the low-income tenants in Ontario.

***Gas Utilities Should Make Recommendations to the Board on Appropriate Screening Criteria, in Consultation with their Low-Income Working Groups***

It is premature for the Board to set the specific eligibility criteria now, as the two utilities and their consultation groups continue to do work in this area. Instead, **the Board should indicate in the Guidelines that the gas utilities should submit proposed eligibility criteria for the multi-family private rental low-income market, when the utilities submit their DSM Plans for approval by the Board, based on the continued consultation with their low-income groups and stakeholders.**

LIEN submits that the Board should allow and encourage the continued work being done by Enbridge and Union Gas in tapping this sector. While the private rental market is difficult to tap in general, the market that primarily serves low-income tenants is even more difficult to access. For example, the right incentives and assistance to building owners and managers must be identified and energy savings benefits must accrue to the tenants as well as the building owners and managers; there should be no additional financial burden through rent increases placed on the tenant as a result of any retrofit improvements. **The Guidelines should encourage Enbridge's pilot to become a program roll-out across Toronto with the hope that these learnings can be transferred to other locations, and encourage Union Gas to initiate a pilot program.**

## What level of funding is appropriate for low-income programs relative to the overall DSM budget?

The level of funding for low-income programs relative to the overall DSM budget should be determined by the gas utilities in consultation with stakeholders. The budget should be sufficient to fulfill the Board's principles of avoiding lost opportunities, achieving longer term savings through a whole home approach, and expanding the reach of low-incoming programming to include the whole province.

## Coordination of Low-income Programming between Board and OPA

LIEN strongly supports coordination between the Board and OPA on low-income DSM/CDM programming. In that regard, LIEN notes that the natural gas utilities have much more experience in the sector as a whole and in various subsectors than do the electric utilities and OPA. The gas utilities have taken a leadership position in Ontario on low-income energy conservation programming and delivery. This leadership position should be encouraged by the Board in the coordination that takes place to avoid "reinventing the wheel", and enhancing rather than slowing the pace of low-income consumer uptake and program innovation in DSM and CDM.