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Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, Ontario, M4P 1E4

Dear Ms. Walli:

Re: EB-2014-0134– Comments on the Draft Report of the Board - Demand Side Management Framework for Natural Gas

The following comments are on behalf of the London Property Management Association ("LPMA") and generally follow the list of questions as set out in the Draft Report of the Board - Demand Side Management Framework for Natural Gas Distributors dated September 15, 2014.

Section 4.5

1) Is a total reduction equal to 5% of average annual gas sales from 2011 to 2013, attributable to DSM programs, a reasonable amount for the gas utilities to be expected to achieve in 2020 (consisting of savings in 2020 and savings from 2015 to 2019 persisting in 2020)?

LPMA submits that the total reduction should be set individually for the gas distributors. In particular, LPMA submits that a 5% average annual gas sales reduction from the average of the annual gas sales from 2011 to 2013 (which is based on an annual average 0f about 0.8% per year in the Ontario total for Union and Enbridge) for Union Gas is too low given their historical achievement of about 1% per year. On the other hand, a reduction of 5% over the 6 years of 5% for Enbridge Gas Distribution is reasonable, given that their historical reduction is about 0.6% per year. The increase to 0.8% per year thus would represent a stretch for Enbridge, but would represent a slowing of the reduction for Union, which has achieved 1.0% per year.

LPMA submits that the Union target should also reflect a stretch from past achievement, as it appears is the case with Enbridge. It is submitted that given actual reductions of 1% per year, a stretch to 1.2% per year, or about 7% for Union in 2020 consisting of savings in 2020 and savings from 2015 to 2019 that persist in 2020 would be reasonable. This reflects a similar stretch amount as that for Enbridge with a 5% target.

2) Which option is the most appropriate for developing fair and objective, yet challenging, long-term natural gas savings targets?

LPMA submits that Option 2 (Board-issued Provisional Long-term Natural Gas Savings Targets) is the most appropriate option for developing fair and objective long-term natural gas savings targets. The distributors, which are responsible for achieving the targets, should not be the ones setting the targets. The ability to set their own targets would ultimately result in gaming of the system - forecast low and reap the benefits of under forecasting.

An independent assessment by the Board is much superior to the distributors proposing their own long-term targets. The Board may also want to consider having an independent third party set the targets for each distributor.

3) What information, other than what is listed above, should the utilities/Board consider when developing the long-term targets?

The Board needs to keep in mind the cost to ratepayers that cannot benefit from DSM programs, either because there is limited savings available to customers, or because the distributors do not offer programs that are relevant to them or not available to them geographically. All of the DSM related costs - budgets, LRAM and incentive payments - are recovered from all customers, including those customers that may not be able to benefit to any material extent in trying to reduce their consumption. The burden on these customers could be significant and the impact on them must be taken into account when setting the total costs associated with meeting any targets that are set.

The Board should consider requiring the distributors to provide information to ratepayers on their bills as least once a year, indicating the total amount that the customer paid for DSM programs (budgets, incentives, LRAM) and the equivalent reduction in consumption they would have had to achieve to offset this increase in costs. This would highlight the fact that all customers are paying for DSM and would encourage them to reduce their consumption.

As shown in Table 3 of the Draft Report, DSM as a percentage of distribution revenue is no longer an insignificant amount of the bill. Ratepayers need to know the amounts they are paying for DSM so they realize that by doing nothing, they are effectively paying more. This is especially important for small businesses. They need to know they are paying for a program that, if they do not take advantage of the programs available, are paying to make their competitors more profitable.

4) Is the proposal for developing provisional long-term targets to guide the gas utilities in building their DSM Plans, with the final long-term targets determined

through the hearing process, an effective manner to develop and approve realistic targets?

LPMA does not believe that the hearing process is necessarily an effective manner to develop and approve realistic targets. This is much like a five year cost of service IR rate plan. Distributors forecast high capital expenditures and OM&A costs while under forecasting load growth. The hearing process attempts to adjust these forecasts to reflect more reasonable forecasts, which are achievable by the distributors with some effort.

As noted earlier, distributors are incented to make sure they can achieve more than their target, so they downplay what they can achieve and have artificially low targets, regardless of who is setting those targets through a hearing process.

5) Is there a different method in which long-term targets could be developed that the Board should consider?

LPMA submits that the Board should consider the use of an independent third party to set the long-term targets for each of the distributors. This independent third party should undertake all necessary studies and comparisons (potential, etc.) in order to come up with these targets. This third party should have a history of doing such work in other jurisdictions with a proven track record.

Section 5.4

1) Should the Board provide a budget guideline that sets out the expected maximum DSM budgets?

LPMA believes that the distributors should be responsible for providing annual budgets that they believe are required to meet their targets. The distributors are in the best position to know what type and mix of programs are most likely to meet their targets.

However, this again leaves the possibility of over forecasting the budgets so as to obtain results higher than target and quality for additional incentive payments.

To counteract this, LPMA submits that the Board should establish a maximum DSM cost per unit of savings achieved to guide and cap the budgets proposed by the distributors. This cost per unit of savings achieved could be based solely on the DSM budget, or it could incorporate both the DSM budget and the incentive payment. From a ratepayer point of view, this makes more sense, since customers care about the cost they are paying, not the split in the source of the costs.

2) If the Board decides to establish a budget guideline, is 6% of 2013 distribution revenue appropriate (plus applicable shareholder incentives)?

LPMA does not believe that setting a budget guideline based on a percentage of distribution revenue is appropriate. There is no link between the amount of distribution revenue and the target amount of savings since the margins differ significantly by rate class. For example, distribution margins associated with industrial volumes is significantly lower than that for residential customers, but the volumetric savings are significantly higher for industrial customers.

LPMA believes that the budget guideline should be based on a cost per unit of savings achieved and that this rate should be established for each rate class, since there can be significant variances between the classes in terms of the cost of the savings achieved.

3) What information, other than what is listed above, should the utilities/Board consider when developing the long-term budgets?

As noted in an earlier response to a question, LPMA believes that the rate impact on customers that are unable to take advantage of DSM programs, for whatever reason, should be a limiting factor when setting not only the long-term budgets, but also the incentive payments.

4) Is there a different method to establish budgets that the Board should consider?

As noted above, LPMA submits that a methodology that sets guidelines, by rate class, on the cost per unit of savings achieved should be used to establish budgets that the Board should consider. By setting these figures, the actual results can be directly compared to the guidelines established by the Board. Incentive payments - or reductions - could then be applied based on the outcomes of actual costs relative to the established guidelines.

<u>Section 6.5</u>

1) Is the proposed shareholder incentive (total of 15% of budget – 10% for achieving 100% of target with an additional 5% for achieving 150%) sufficient to fully engage the gas utilities to deliver significant DSM results from 2015 to 2020?

LPMA believes that the proposed shareholder incentive is overly generous and ill conceived. It incents distributors to spend more through their DSM budgets and does not promote the efficient use of ratepayer money.

Again, this is all about gaming the system. Low targets, accompanied by high budgets that result in over achieving the target and qualifying for a larger incentive payment, which is also percentage of the DSM budget is laughable at best.

LPMA further submits that no incentive payments should be made if a distributor achieves anything less than their target. The incentive should only kick in when the target has been met or exceeded.

2) Is it appropriate to tie the maximum incentive amount to the DSM budget?

As noted above, LPMA does not believe that the incentive amount should be tied to the DSM budget. This encourages the wasteful use of ratepayer money. It encourages less efficient spending of money because as long as the targets are met, the incentive is higher if the DSM budget is higher.

If the incentive is tied to the DSM budget, it should encourage more efficient and productive spending. This could be accomplished by reducing the incentive as the DSM budget gets higher, rather than increasing it and by tying it to actual DSM spending.

As an example, the shareholder incentive would be tied to the actual DSM spending rather than to the budget and the maximum percentage would be awarded (assuming 150% of the target is achieved) based on 90% of the DSM budget. If the actual DSM spending is in excess of 90% of the budget, then the shareholder incentive, as a percentage of the actual DSM spending would decline.

Using the numbers in the previous question (15% of the DSM budget as the incentive for achieving 150% of the target), the following example illustrates that proposal above, assuming that the budget is $100 and the distributors hits 150% of their target.

Under the proposal in the Draft Report, the distributor would earn an incentive of $15. Under the above proposal, the distributor would get the $15 incentive only if their actual spending was $90 or less. This incentive payment would decline if the actual spending on DSM programs was higher than 90% of the budget or in this example $90. LPMA submits that the incentive payment could be reduced by $1 for every $2 in excess of 90% of the budget. For example, if the actual expenses were $96, the incentive would be reduced by $3, from $15 to $12. If the expenses were equal to the budget, the incentive would be reduced to $10, and so on.

This type of approach results in two positive outcomes. First, the distributor is incentivized to keep costs under control and to become more productive because the level of the incentive payment is maximized through responsible spending and achieving efficiency. Secondly, it provides a level of protection to ratepayers in that the distributor will lose $1 for every $2 it spends in excess of 90% of its budget, resulting in lower costs to be recovered from ratepayers. Under the current proposal, ratepayers pay for the entire DSM budget, including any overage up to 15%, and then pay a higher incentive as the extra money is used to effectively achieve a higher level of profit.

3) If you do not agree the incentive amount should be tied to the DSM budget, please provide details for how the maximum incentive amount should be calculated.

LPMA sees no reason by the incentive amount needs to be tied to the DSM budget. The incentive payments to Union and Enbridge, as noted in the Draft Report based on the Concentric jurisdictional review were extremely high.

The proposal to set the incentive payments at 10% (for 100% of the target) and up to 15% (for hitting 150% of the target) of the DSM budget, based on the data in Table 6 of the Draft Report would result in incentive payments of about $3 million for hitting 100% of target and $4.5 million for hitting 150% of target.

LPMA submits that these are reasonable incentive payments, irrespective of the level of the DSM budget. There is no good reason why an incentive payment of $3 million to Union for achieving 100% of its target is reasonable with a $30 million DSM budget, but not if the DSM budget was $50 million. After all, it is not the distributors money that is being spent, it is the ratepayers money. Prudently incurred costs are fully recoverable from ratepayers, so the distributor is at no more risk when it has $50 million budget than when it has a $30 million budget.

4) If you do not agree that the Board should administer a cost-efficiency incentive, provide the rationale for this position and what issues the Board should consider.

LPMA supports a cost-efficiency incentive.   However it does not support the cost-efficiency incentive as proposed in the Draft Report. That proposal is ill conceived because it rewards cost efficiency in one year with the ability to be less efficient in the next year. LPMA submits that any cost-efficiency measure should strive for continuous improvement and not the ability to slack off in one year because of the results from the previous year.

LPMA submits that the incentive payment methodology described in the previous sections automatically builds in a cost-efficiency measure in that it provides an incentive to be cost efficient.

5) What other aspects should the Board consider when developing the shareholder incentive? Why?

The Board should take into consideration the impact on ratepayers of the shareholder incentive (in addition to the DSM budget costs), especially for those customers that are unable to take advantage of conservation programs, for whatever reason.

The Board should also be cognizant that shareholder incentives are not available to potential third party providers of services and that providing large incentives to the distributors, the Board may be discouraging energy conservation through other parties. In the long term, this is likely to result in suboptimal energy reduction in the province.

6) Is a pay-for-performance funding/incentive model appropriate?

LPMA believes that a pay-for-performance funding/incentive model is appropriate for the longer term, but not for the 2015 through 2020 period.

In the longer term, LPMA believes that such a model could be used to introduce competition into the delivery of DSM (and CDM) programs. Such a model would allow for the easy expansion of using third party providers of conservation programs that would put them on an equal footing to the distributors. This in turn would provide competition for the distributors and enhance cost control even further, while emphasizing results.

Section 7.1

1) Should the Board consider other program options in addition to those listed in the draft DSM Framework and draft DSM Guidelines? If yes, please outline which programs are appropriate and why.

LPMA submits that the Board should include some flexibility with respect to program options. LPMA has not other program options to suggest at the current time. However, this does not mean that other such options are not currently available or may become available in the future.

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

LPMA does not believe that a level of funding for low-income programs relative to the overall DSM budget is appropriate. Rather, LPMA submits that the level of funding for low-income programs should be determined by need rather than as a arbitrary percentage of the total DSM budget.

Distributors should set the low-income program budget equal to amount that is expected to be spent in that program. LPMA also submits that the low-income budget should be sufficient to ensure that any customer that qualifies for the low-income program should have access to it, regardless of where they reside in the distributor's franchise area.

The Board should ensure universality of access to low-income programs to all who qualify, regardless of location.

3) Are DSM programs for large volume customers appropriate and should both gas utilities be permitted to offer these programs?

LPMA believes that the distributors should be permitted to offer DSM programs for large volume customers. It is appropriate to do so because even a relatively small percentage in the reduction of gas use at a large volume customer can result in significant reductions in the volume consumed. It would seem inappropriate to LPMA if the distributors did not offer these programs to large volume customers, assuming that these customers are interested in receiving such programs.

Sincerely,

Randy Aiken

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Aiken & Associates