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APPrO
ASSOCIATION OF POWER PRODUCERS OF ONTARIO

EB-2014-0134

Submission to the Ontario Energy Board

By the Association of Power Producers of Ontario

Regarding

Demand Side Management Framework for Natural Gas Distributors

October 15, 2014

Introduction

1. On September 15, 2014, the Ontario Energy Board ("OEB") issued the following documents:
   - Draft Report of the Board on Demand Side Management Framework for Natural Gas Distributors ("Framework"),
   - Draft Filing Guidelines to the Demand Side Management Framework for Natural Gas Distributors (Guidelines"), and
   - Review of Demand Side Management (DSM) Framework for Natural Gas Distributors – Supplemental Report

2. The Board, in its accompanying cover letter of the same date, invited interested parties to submit comments on all elements of the first two reports and further posed several questions for areas in which it was particularly interested in the views of stakeholders.

3. This is the submission of the Association of Power Producers of Ontario ("APPrO") in respect of these reports. Rather than make comprehensive comments on all aspects of the Framework and Guidelines, APPrO will focus its comments on the issued raised under Question #3 of section 7.1 of the Framework; that being:

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

Background

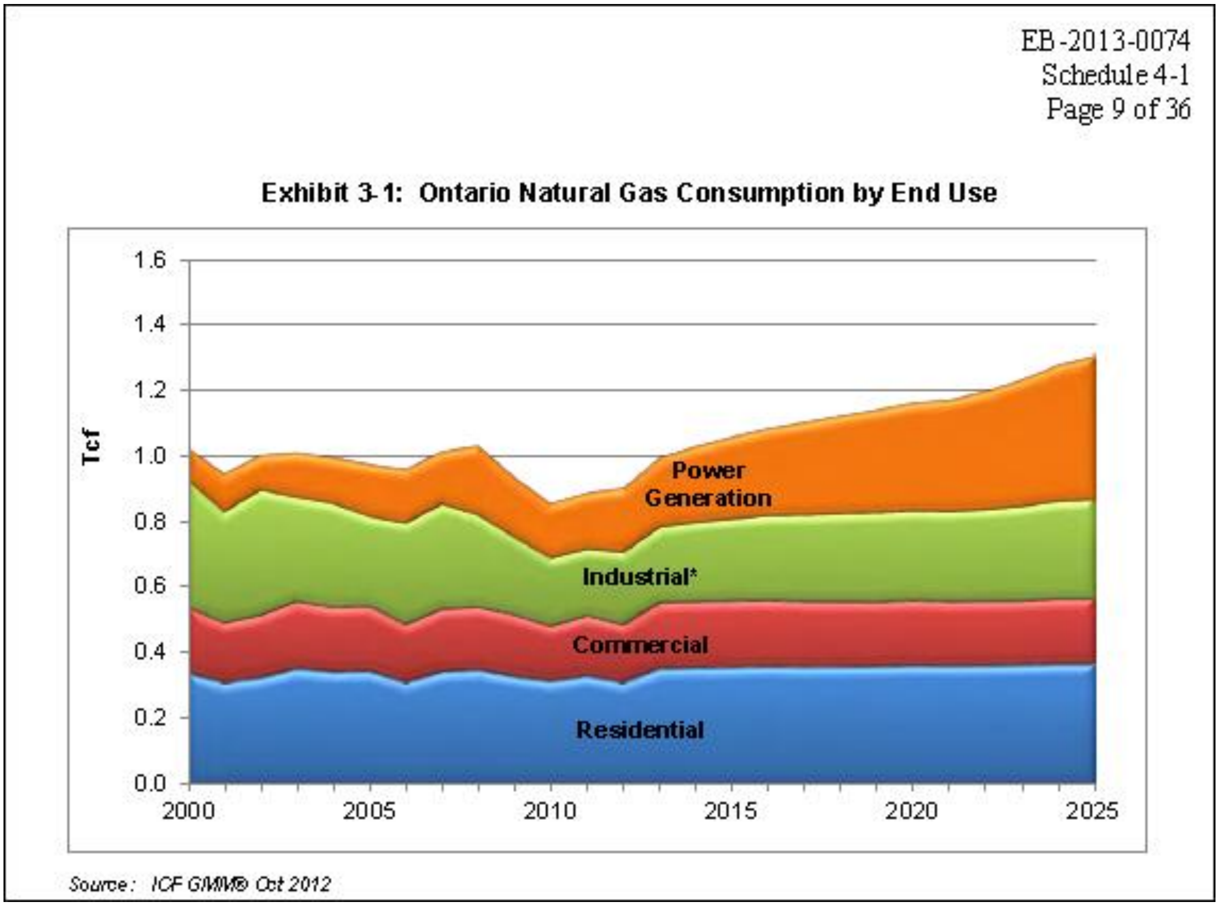
4. APPrO is a non-profit organization representing more than 100 companies involved in the generation of electricity in Ontario, including generators and suppliers of services, equipment and consulting services. APPrO members produce power from co-generation, hydro-electric, gas, coal, nuclear, wind energy, waste wood and other sources. APPrO's members currently produce over 98% of the electricity made in Ontario.

5. APPrO members are major customers of the Ontario utilities with approximately 9,000 MW of on-line gas-fired generation capacity. A further 1,200 MW of gas-fired power generation is under development in Union's North and South franchise areas.

6. APPrO members generally take service generally under several large volume rate categories including:
   - In Union North: Rate 20 and Rate 100
   - In Union South: Rate T2
   - In Enbridge: Rate 125

- Gas-fired generators also are significant shippers on Union's Dawn- Parkway service under M12 service, they contract for both unregulated and cost based storage services from the utilities at Dawn, and they are major shippers on the TransCanada Mainline (TCPL) sourcing gas volumes from both Western Canada and Dawn to their respective plants

7. During the Framework period gas-fired generators will represent the largest group of large volume customers (as between Industrial and power generation customers) as evidenced by the chart below that was prepared by ICF in the noted proceeding.



APPrO Position on Mandatory DSM Programs for Large Volume Customers

8. As the association representing the largest group of large volume customers, APPrO strongly believes that it is simply not appropriate for utilities to offer mandatory ratepayer funded DSM programs to large volume customers.

9. This statement should **<u>not</u>** be construed in any way to suggest that APPrO and its gas-fired generator members do not believe in implementing cost effective energy efficiency

measures. APPrO and its generator members not only believe in, but have, and continue to actively implement cost effective energy efficiency measures to ensure their viability. APPrO and its gas-fired generator members believe that mandatory ratepayer funded DSM programs for large volume customers should not be the domain of regulated gas utilities.

Why Does APPrO Believe DSM Programs for Large Volume Customers Should Not be Mandatory?

10. APPrO members are committed to energy conservation without the need for mandatory ratepayer funded DSM programs. This commitment is best summed by the LEED certified plant manager for London District Energy:

> *The bottom line here is that we're committed to energy efficiency. I am personally, and the company is. It is our number 1 area that we can actually see, if you just want to talk dollars, profit as well, is by reducing our fuel cost.*
>
> *I mean, we're also -- we have expertise in energy efficiency in matters from top to bottom, from myself to our chief engineer, who has over 20 years of experience, to our staff.*
>
> *I mean, there is a culture of conservation throughout London District Energy. We have even put it to the point of having staffs' individual performance review tied to the distribution system losses and having them look at reducing thermal losses through that.*[1]

11. There are several messages worth reinforcing with the Board that should alleviate any concern the Board might have about the commitment these companies have to identify and implement energy conservation measures:
    - First there is a **culture of energy conservation** within the industry
    - Corporately **they walk the talk**. They have incented employees financially to seek out and implement energy conservation measures.
    - **They have the expertise** internally to identify and implement energy efficiency opportunities.
    - They **do actively seek out and implement energy efficiency measures.** Increased conservation means lower costs and higher profits.

    Is this not what a DSM program is trying to achieve?

[1] EB-2012-0337 Transcript Volume 2 page 102

So if Gas-fired Generators are Committed to Energy Conservation Measures, Why Would They Object to a Ratepayer Funded Program that Would Assist Them with this Process?

12. The financial inefficiency of mandatory ratepayer funded DSM program simply doesn't work for gas-fired power generators, many of which are new large state-of-the-art plants. This is best illustrated with the following example. During the period 2009 to 2011 Union funded a total of 60[2] DSM generator related projects and obtained $700,000[3] in associated funding for these 60 projects. Generators paid over $9.4 million[4] in higher distribution rates during this time period in order to receive this $700,000. This represents a return of 7.5¢ on the dollar paid by generators to the utility. Surely these economics highlight either the inefficiencies or potential biases in the program.

13. Further, the $700,000 received by these large volume customers through the ratepayer funded portion of DSM program represents a small portion of the total cost of implementing these 60 energy efficiency initiatives. The balance of the cost funded by the customers required to implement these DSM projects was $12.54 million[5].

14. Two additional metrics are noteworthy: first that the $700,000 in DSM funding represents about 5% of the total cost ($0.7 million/($0.7 million + $12.54 million) to implement a DSM initiative. Since the incentive is small in relation to the total project cost, it would be rare that the incentive by itself would be sufficient to convince a large volume customer to implement an energy efficiency measure that it was not already committed to implement. Secondly, the real economics is that the cost of these measures is not just the additional $12.54 million, but the full-cycle cost to implement these measures, i.e., the $12.54 million plus the $9.4 million in higher rates, less the $0.7 million in DSM funding, for a total of $21.24 million.

15. Notwithstanding the Board's current comments that the scope of a DSM program for large volume customers should, if implemented, focus on providing technical expertise[6]. This is simply not required. The Board has for some time recognized that these large volume customers have the necessary technical expertise to implement energy efficiency programs on their own. This has not changed.

> *The Board is of the view that large industrial customers possess the expertise to undertake energy efficiency programs on their*

[2] EB-2012-0337 Exhibit A Tab 1 Page 9 Table 1
[3] EB-2012-0337 Transcript Volume 1 page 116
[4] EB-2012-0337 Undertaking J1.5 (sum of Row 19 for 2009 to 2011 in both Attachment 1 & 2)
[5] EB-2012-0337 Undertaking J1.4
[6] Draft Filing Guidelines Dated September 15, 2014 section 2.5 EB-2014-0134

own.[7]

16. Union also recognizes this fact in its closing argument in EB-2012-0337:

> *Union freely acknowledges that power generation customers possess expertise to undertaken [sic] energy efficiency programs on their own that result in natural gas savings. In Union's submission, this fact should not be seen as a matter of controversy in this proceeding.*[8]

17. Clearly **both** the Board and Union acknowledge that these customers have the necessary expertise to conduct these energy efficiency programs on their own. It is therefore unnecessary and duplicative for the utilities to continue to offer DSM programs to these large volume customers. The degree of sophistication of these operators has continued to increase over time.

18. Mandatory ratepayer funded DSM programs have a degree of impracticality to them from a customer's perspective. For example, virtually all of the natural gas used by gas-fired generators is used by the gas turbine to generate electricity and steam. These turbines are very large complex pieces of equipment. Operators enter into long term comprehensive maintenance agreements with either the turbine manufacturer or other qualified service companies to maintain this equipment at peak efficiency. These agreements specify detail maintenance programs to restore the efficiency of the equipment at specified intervals under a variety of criteria. For example, major maintenance programs are performed at certain intervals of time or operating hours. Some gas turbines are of an aero-derivative design, and when a major overhaul is due, it is cheaper, quicker and more effective to physically have the turbine removed and a new or refurbished unit installed to replace it. On the other hand, larger frame units are fully maintained in-situ. Not to have these comprehensive maintenance agreements would not only be more expensive due to the loss of efficiency of the units, but it could also compromise the manufacturer's warranty on the equipment. So not only is this work already being completed <u>independent of a mandatory ratepayer funded DSM program</u>, but the manufacturer essentially requires it. To do otherwise would compromise the warranty on the single key piece of equipment that allows the generator to stay in business. Energy conservation is therefore an integrated and embedded part of the operation. No utility DSM program will change this comprehensive self-implemented maintenance program. Even if the natural gas utility were to offer its technical expertise, it is hard to envision how it would possess technical expertise that was superior to the manufacturer of this highly sophisticated equipment.

[7] Demand Side Management Guidelines for Natural Gas Utilities EB-2008-0346 section 8.2
[8] EB-2012-0337 Transcript Volume 2 page 122 February 1, 2013

19. The economics of an energy efficiency measure is unique to both the specific measure as well as the company implementing the measure. Large volume customers take into account their individual cost of capital, investment horizon, and the specific operating parameters that apply to the measure. They do not fit into a standardized utility type calculation. To suggest otherwise is simply wrong. Whether or not a mandatory ratepayer funded DSM program is offered, the final decision to implement an energy efficiency measure rests solely with the customer and its decision making process and relative economics are the only metrics that are relevant.

20. APPrO acknowledges that in the past, some gas-fired generators have received funding from the utility to implement their energy efficiency programs. While these generators have their own energy efficiency programs, utilities have offered funds to assist them with specific energy efficiency initiatives. The DSM funding is already a sunk cost funded through rates. Why would they not take this ‘free money’ to help pay for work that is already planned and in some cases already completed? The fact that they have availed themselves of a small portion of the funding they have contributed to the DSM program through their distribution rates should not, in any way, be interpreted as support for the mandatory ratepayer funded DSM program.

21. APPrO does not believe that either the Board or the Ministry of Energy intended mandatory DSM programs to be applied to large volume gas users that proactively and effectively implement energy efficiency measures on their own. Surely the intent of DSM programs is to stimulate energy efficiency in those sectors not otherwise self-motivated to implement energy efficiency measures.

22. If the Board were to decide that it should be up to the utilities to offer the DSM program and the utilities deem it appropriate to offer these services, it would be discriminatory and prejudicial to those large volume customers that proactively implement rational and cost effective energy efficiency measures. This would cause the distribution rates of all large volume customers to increase in order to fund the DSM program for those that choose to not implement energy efficiency measures on their own.

Who Should Decide if a DSM Program Should be Offered?

23. The Guidelines indicate that DSM Programs for large volume customers are not mandatory[9]. The Guidelines further suggest that it is up to the utilities to decide if DSM Programs should be offered to this customer group[10]. APPrO believes that the utilities should not be making this decision on their own as they may be biased which could

[9] Draft Filing Guidelines Dated September 15, 2014 section 2.5 EB-2014-0134
[10] Ibid.4

influence their decision to 'deem[s] it appropriate to offer a program'[11]. The utilities are motivated to offer the program as they receive significant incentive payments to offer these programs if they achieve certain targets. The Board has expressed significant concern in the past with the way that these targets are set, subsequently measured, audited, and the incentives calculated. The Board indicated:

> *…..after considering carefully the testimony of the Diamond witness, the project particulars and the testimony of the Union witnesses concerning Union's TRC assessment process, the Board is not convinced that Union applied the requisite due diligence in assessing these factors for some of the large industrial custom projects.*[12]

24. The Board went on to say:

> *The Board considers it reasonable to expect that at least a minimal level of scrutiny of the value of incentive investments would occur even though there is a free ridership rate applied to the portfolio overall. The investment in DSM should not occur when it is apparent that the implementation of a proposed project is not being influenced by the DSM incentive contribution. In other words, investments should not knowingly be made in free riders.*[13]

25. It is reasonable to conclude that if the ability to earn these incentives has influenced the calculation of the incentive payments then it may also have influenced the decision to 'deem[s] it appropriate to offer a program'[14] in the first place. APPrO believes that large volume customers should first decide if this is a service that they want the utility to offer. Then, and only then, should the utility decide if this is a service it wants to offer to this large volume customer group.

Which Rates Classes Should be Exempt from Mandatory DSM Programs?

26. APPrO is proposing that mandatory ratepayer funded DSM programs no longer be offered to large volume customers. The utility rate classes that should be specifically excluded from this program include:
    - Enbridge:
        - Rate 125
    - Union South
        - Rate T2
    - Union North

[11] Ibid.
[12] EB-2012-0109 Decision page 39
[13] Ibid.
[14] Draft Filing Guidelines Dated September 15, 2014 section 2.5 EB-2014-0134

- Rate 100 Large Volume High Load Factor Firm Service
- Rate 20 Medium Volume Firm Service

It should be noted that while Rate 100 appears to be the rate for large volume customers and Rate 20 the rate for smaller or medium sized volume customers, in fact a Rate 100 customer must have both a large volume **and** a high load factor (approximately 70%). Therefore large customers that might otherwise qualify for Rate 100 customers but do not have the specified high load factor are required to be contract under Rate 20. In fact, all or virtually all gas-fired generation in Union North that is dispatchable in nature, or any large customer with a load factor less than 70%, would not qualify for Rate 100 and would be required to be served under Rate 20, hence the need to exclude Rate 20 from the DSM program.

Alternatives to a Mandatory DSM Program for Large Volume Customers

27. APPrO recognizes that there may be certain large volume customers that may value the utilities' technical expertise or other elements of the DSM program. This was in fact the basis for APPrO proposing an 'opt-out' position in EB-2012-0337. An opt-out program, had it been approved, would have allowed a balance of interests among large volume customers. Those who wished to continue to utilize DSM services would have had access to the DSM program and would have paid for it. Those large volume customers who proactively implemented energy efficiency measures and did not see value in the mandatory ratepayer funded DSP program would no longer have access to the program nor pay for it in rates.

28. While APPrO is opposed to a mandatory ratepayer funded DSM program for large volume customers, APPrO would not be opposed to the utilities offering a for-profit 'DSM type' energy conservation service outside a mandatory ratepayer funded program, provided that there was an equitable allocation of costs to this aspect of the business. APPrO anticipates that this could become an unregulated portion of the utility business. This would allow those customers valuing this service to continue to have access to it, on a fee for service basis. It would also allow the utilities to continue to earn additional incentive payments for providing this service. This type of program would not only allow those large volume customers access to the utilities' expertise, but it would also create better alignment and accountability between the customers' need for service and the service offerings made available by the utilities. If the utilities are truly offering a value added service, then they should have no concerns about competing in this sector. Customers also regularly contract for multitude of outsourced energy related and other services for their operation, energy conservation ought to be treated in the same manner Similarly utilities currently offer unregulated storage and

balancing services to large volume customers. Energy conservation could be added to this portfolio.

Summary

29. Large volume customers are self-motived to, and do, implement energy conservation measures. They do not need or desire a mandatory ratepayer funded DSM program. These customers have the required financial motivation and the technical expertise to implement energy conservation measures on their own.

30. Should some large volume customers believe that they need the utility to provide some technical expertise to help implement energy efficiency measures, APPrO believes that this can be best accomplished by the utility offering this as an unregulated business. Alternatively there are many technical experts that offer these services in the marketplace. This customer can always seek out one these other service providers to obtain this knowledge. All large volume customers should not be penalized for the few that have not maintained their competitiveness.

APPrO respectfully offers these comments to the Board and would be pleased to answer any questions that the Board may have.

Submitted this 15th day of October, 2014

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APPrO