

Ontario Energy Board

IN THE MATTER OF the *Ontario Energy Board Act, 1998*,
S.O. 1998, c. 15, Sch. B, as amended;

AND IN THE MATTER OF a consultation by the Board
with respect to Gas Utility DSM Framework and Guidelines.

Submissions of

Energy Probe Research Foundation

October 15, 2014

Review of Framework For Gas Utility DSM

Comments on behalf of Energy Probe Research Foundation

The comments set out in this submission are based on the following documents:

Minister's Directive, Draft Report and Draft DSM Guidelines.

Comments are highlighted in blue text and placed together with the relevant extracts of the Documents.

Ministers Directive (Extract re Gas Utility DSM)

4. The Board shall establish a DSM policy framework ("DSM Framework") for natural gas distributors whose rates are regulated by the Board ("Gas Distributors"). In establishing the DSM Framework, the Board shall have regard to the following objectives of the government in addition to such other factors as the Board considers appropriate:

- i. that the DSM Framework shall span a period of six years, commencing on January 1, 2015, and shall include a mid-term review to align with the mid-term review of the Conservation First Framework;
- ii. that the DSM Framework shall enable the achievement of all cost-effective DSM and more closely align DSM efforts with CDM efforts, as far as is appropriate and reasonable having regard to the respective characteristics of the natural gas and electricity sectors;
- iii. that Gas Distributors shall, where appropriate, coordinate and integrate DSM programs with Province-Wide Distributor CDM Programs and Local Distributor CDM Programs to achieve efficiencies and convenient integrated programs for electricity and natural gas customers;
- iv. that Gas Distributors shall, where appropriate, coordinate and integrate low-income DSM Programs with low-income Province-Wide Distributor CDM Programs or Local Distributor CDM Programs;
- v. that the Board shall annually review and publish the verified or audited results of each Gas Distributor's DSM programs;
- vi. that an achievable potential study for natural gas efficiency in Ontario should be conducted every three-years, with the first study completed by June 1 2016, to inform natural gas efficiency planning and programs. The achievable potential study should, as far as is appropriate and reasonable having regard to the respective characteristics of the natural gas and electricity sectors, be coordinated with the OPA with regard to the OPA's requirement to conduct an electricity efficiency achievable potential study every three-years;

vii. that DSM shall be considered to be inclusive of activities aimed at reducing natural gas consumption, including financial incentive programs and education programs; and

viii. that lost revenues resulting from DSM programs should not act as a disincentive to Gas Distributors in undertaking DSM activities.

5. By January 1, 2015, the Board shall have considered and taken such steps as considered appropriate by the Board towards implementing the government's policy of putting conservation first in Distributor and Gas Distributor infrastructure planning processes at the regional and local levels, where cost-effective and consistent with maintaining appropriate levels of reliability.

6. Nothing in this Directive shall be construed as directing the manner in which the Board determines, under the *Ontario Energy Board Act*, 1998, rates for Gas Distributors or for Distributors, including in relation to applications regarding regional or local electricity demand response initiatives or infrastructure deferral investments.

Comments

Paragraph 4. Role of OEB (as set out in the Draft Report)

Energy Probe was not a member of the invited OEB Working Group and has not been advised of the nature of any Policy discussions with the Ministry of Energy. Nonetheless, we consider it appropriate to comment that from a plain reading of the Directive the Board's role as outlined in the Directive can best be characterized as that of *Facilitator*, (in addition to its accepted historic/current role of approval of Gas DSM multi-year programs and recovery of costs in rates)

In our view, the roles to be assumed by the Board and its Staff as set out in the Draft Board Report go well beyond what would be expected of an Energy Economic Regulator providing a Policy Framework and acting as Facilitator for implementation of the Ministers directive. We will address this further below.

The Critical Issue is whether the OEB is planning to enact a Rule. Code or Guidelines For Regulated Gas DSM in Ontario.

We assume it is the latter given the nature of and title "Draft Filing Guidelines to the Demand Side Management Framework for Natural Gas Distributors EB-2014-0134"

Perhaps the perceived need for a major OEB role in design and governance of the Gas DSM sector set out in the Draft Report may result from the lack of an organization like OPA. OPA is tasked with Governance CDM for the Electricity Distribution sector, designing programs and directing and coordinating the CDM delivery efforts of the ~75 Electricity Distributors.

We also note that as Economic Regulator, the Board has oversight of OPA CDM Administrative Budgets as part of the Fees Review under Section 25 of the Electricity Act.

Perhaps the need for change from the current GAS DSM Framework that is implicit in the Draft Report arises because the Board feels that either the Current DSM Framework and Structure has failed, or may in future fail, to meet the increased emphasis on DSM set out in the Directive. There is nothing explicit in the Draft Report that indicates this is the case. Perhaps Board Staff may have reached the conclusion from Concentric's peer group comparisons that Ontario is falling behind in Gas DSM.

If so, the Draft Report should say explicitly that Ontario is behind the peer group and provide options regarding how to remedy this.

Critically, we would suggest, other than concerns with comparability with Concentric's peer group, recognition that the Ontario Gas DSM Sector is different in several respects to either the Ontario Electricity Distribution CDM sector or to many of the Concentric peer group members:

- there are only two gas distributors active in DSM
- there is over 18 years' experience under OEB oversight under 3 previous DSM frameworks; and
- a collaborative approach has developed with ratepayers

The Draft Report suggests a fundamental Policy and Strategic change that assumes OEB providing Governance and Direction of Gas DSM. This is the role that OPA currently, and post IESO merger, will continue to, play for Electricity CDM over the next few years.

We suggest it is questionable whether the role that the Board appears to assume is an appropriate role for a rate regulator.

This applies both at the "front end" and the EM&V "back end". There are strong reasons why the OEB should maintain its traditional Regulator role, maintain its separation and independence from the gas utilities and ratepayers, while still acting as a Facilitator and providing oversight to ensure the Minister's Directive is implemented.

However, the Draft Report suggests the OEB and Staff ante-facto, as part the Framework and Plan will have responsibility for specifying Targets and Budgets and providing Direction on program types and specification of metrics and performance measures etc. Post-facto OEB Staff will take responsibility for auditing results and approving recovery of costs and incentives to be recovered in rates.

The issue of Governance of Electricity and Gas DSM has recently been addressed by the Manitoba Public Utilities Board in its Report to the Manitoba Government on the Need for and Alternatives To (NFAT) Manitoba Hydro's Preferred Development Plan.

A separate externally regulated entity is required to develop and implement energy efficiency measures and monitor their effectiveness. Such an entity should be subject to regular external audits to confirm DSM savings. Examples of similar arrangements exist in other North American jurisdictions.
MPUB Report June 20, 2014 page 23

From the above it appears that the MPUB believes that Governance of Utility DSM is required and should be separate from the Regulator and the Utility. That is similar to the model for Electricity CDM in Ontario

The Manitoba Government News Release of July 2, 2014 stated

The report emphasized the importance of improving long-term demand side management (DSM) planning. Minister Struthers said the government accepts the panel's recommendation to create a DSM entity, independent of Manitoba Hydro, and will be investigating different models in the coming months.

v) Achievable Potential Study

The Directive requires that an Achievable Potential Study be done at mid-term (2016). However, it is known that both Union Gas and Enbridge have or currently undertaking Baseline 2014 AP studies.

The Draft Report does not reference these new AP studies and does not appear to base its discussion of Targets, Budgets and other key parameters on the results of these Baseline AP Studies.

This makes it difficult for parties to comment intelligently on Staff proposals for these components of the Framework

If the *results of the Union and EGD AP studies* have been provided to the Working Group, then they should be provided to other parties as soon as possible.

Comments on Draft Framework Report

1.2 Scope of Report

As indicated, the Board welcomes stakeholder input on all aspects of the new framework. There are, however, some specific elements, such as targets, budgets, shareholder incentives and program types where the Board has put forward proposals for consideration, including specific questions for which the Board would be interested in responses.

Are these Framework Structure Proposals Board or Board staff Proposals? This is not clear from the wording of the Report and this should be clarified.

Further, the Board has introduced proposals for stakeholder consideration which will engage the Board more fully in providing objective oversight and guidance for the development of the general DSM landscape within which the gas utilities will operate for the next six-years. Within this general landscape, the Board would provide guidance as it has in the past and allow the gas utilities to use their expertise to design and implement robust programs to help achieve greater gas efficiencies in the marketplace, reduce overall natural gas consumption levels, provide opportunities for customers to better manage their energy usage and develop DSM programs with the goal of avoiding or deferring future capital investments. These proposals would represent a change from the current framework, as they would put the Board in the position of taking on a larger role at both the front-end (target development through achievable potential studies) and the back-end (evaluation of program results) of the new DSM Framework.

As noted above, we do not believe such a role is appropriate for the Regulator and if additional governance is required (this has not been demonstrated in the Report) then the Ministry of Energy should provide this.

With the introduction of a new framework it is important for the Board to reflect on why the Board believes that DSM is important and what it is trying to achieve through the provision of rate payer funded DSM programs. There are many benefits of DSM, but the Board's approval to fund such programs through natural gas distribution rates must be within the scope of the Board's legislative mandate. The Board believes that rate payer funded DSM programs should focus on the following goals:

- **Promote energy conservation and energy efficiency to create a culture of conservation.** DSM programs are expected to advance conservation and energy efficiency, beyond the program participants, to the broader public in Ontario.
- **Avoid costs related to future natural gas infrastructure investment including improving the load factor of natural gas systems.** Gas utilities are expected to engage in integrated resource planning to include DSM as an option to be considered in infrastructure planning to reduce the demand for natural gas with the goal of avoiding and/or deferring future infrastructure costs. This is consistent with the government policy of conservation first; and,
- **Assist consumers in managing their energy bills through the reduction of natural gas consumption.** Customers who participate in the DSM programs are expected to observe a decrease in their energy bills.

Generally admirable Goals -but we suggest that the Consumer energy bill goal should precede the one regarding to avoid costs of future infrastructure. For established gas utilities the infrastructure economic impact is much less than the costs of renewing/expanding the electricity transmission and distribution systems in the province.

There is no reference to environment (e.g. Greenhouse Gas reduction), nor Integrated Resource Planning in the first or second goals. Fuel Substitution should also be one element of a complete DSM/CDM Plan

3.0 GUIDING PRINCIPLES

The Board has outlined a list of guiding principles to be considered in the development, assessment and approval of DSM Plans. Gas utilities are expected to take these into consideration when designing and planning their individual programs and their overall DSM activities for 2015 to 2020

1. Invest in DSM where the cost is equal to or lower than capital investments and/or the purchase of natural gas.

The **administration costs** for delivering DSM programs and participant incentives should be equal to or lower than the capital investments and/or the purchase of natural gas costs calculated on a life-cycle basis and expressed on a \$/m³ of natural gas saved or supplied, respectively.

Administration costs needs better definition. For example: is this based on the Program Administrator Cost (PAC) Test?

2. Achieve all cost-effective DSM that result in a reasonable rate impact.

The gas utilities' overall DSM portfolio and individual programs should aim to achieve all the **cost-effective DSM available in its franchise area**, having regard to the Board's guidance with respect to DSM budgets that the costs required to do so result in reasonable rate impacts for customers.

3. Where appropriate, coordinate and integrate DSM and electricity CDM efforts to achieve efficiencies.

Gas utilities should pursue coordination and integration in designing, promoting and delivering DSM programs with the Ontario Power Authority ("OPA") as well as with electricity distributors, where appropriate and possible, to increase overall efficiency, reduce delivery costs, and maximize program impacts.

To achieve this objective an MOU or other Mechanism with IESO/OPA is required

4. Gas utilities will be able to recover costs and lost revenues from DSM programs.

Gas utilities will be allowed to recover spending associated with the administration and delivery of DSM programs, lost revenues and **shareholder incentive amounts**, subject to any specific alternative approach such as a pay-for-performance funding/incentive mechanism.

5. Design programs so that they achieve high customer participation levels.

Programs should be designed to remove financial, information and other barriers in the market place to increase take-up of DSM programs.

Programs should take a "Whole House/Establishment" approach.

6. Minimize lost opportunities when implementing energy efficient upgrades.

DSM programs should pursue opportunities such as replacement of equipment with long lives that, if not undertaken during the current planning period, will no longer be available or will be substantially more expensive to implement in a subsequent planning period.

7. 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.

Agree - see later comments.

8. Programs should be designed to pursue long-term energy savings.

Programs should pursue DSM options with long lives that produce long-term energy savings, such as thermal envelope improvements (e.g., wall and attic insulation).

9. Shareholder incentives will be commensurate with performance and efficient use of funds.

The amount of shareholder incentive will depend on meeting or exceeding the DSM targets, including natural gas savings targets, and will take into consideration the relative difficulty in achieving other goals the Board expects the gas utilities to achieve (e.g., programs that deliver long-term savings, accessible low-income programs, integration and coordination with electricity conservation programs, conservation first in infrastructure planning, etc.); and,

Pay for Performance -high weight on Cost Effectiveness - see later comments.

10. Ensure DSM is considered in gas utility infrastructure planning at the regional and local levels.

DSM should be one of the options considered when developing both regional and local infrastructure plans. Infrastructure investments may be avoided or deferred through targeted reductions in the demand for natural gas.

4.0 DSM TARGETS

4.3.1 Option 1: Gas Utility-proposed Provisional Long-term Natural Gas Savings Targets

Under this option, the gas utilities would continue to develop and propose utility-specific natural gas savings targets, however, in addition to the annual targets and metrics the gas utilities have proposed in the past, they would now also propose a provisional long-term target, to be achieved by 2020. The gas utility will propose the provisional long-term target within their applications for a long-term DSM Plan, subjecting the target to the rigour of the hearing on the DSM Plan and ultimately a decision by the Board.

The gas utilities would rely on their most recent achievable potential studies, experience-to-date and projected market opportunities and constraints to inform the development of their long-term natural gas savings target. This option would maintain the current practice of the gas utilities leading the development of targets related to its DSM efforts.

For reasons set out earlier, Gas Utility proposed Targets is the only reasonable approach, absent a party equivalent to OPA or the Ministry of Energy assuming this Oversight.

4.3.2 Option 2: Board-issued Provisional Long-term Natural Gas Savings Targets

Similar to the first option, under option two, the Board would establish provisional long-term natural gas savings targets based on its review and analysis of the gas utilities' most recent achievable potential studies and the jurisdictional review completed by Concentric. The provisional, utility-specific long-term targets issued by the Board would be used by the gas utilities in their development of their DSM Plans. Ultimately, the final long-term target will be that which is included in the Board's final decision on the gas utilities' 2015-2020 DSM Plans. A benefit of this option is that the Board's expectations are fully transparent in guiding the gas utilities at the outset of the DSM Framework and provide an independent assessment of challenging but achievable gas savings targets for 2020.

Another benefit of the Board developing the long-term targets is that it will enable a level of Board oversight at the front end of the DSM Framework that has not been in place in recent years. The Board will be in the position to help guide the gas utilities towards pursuing the type of natural gas savings that will ultimately lead to the greatest long-term and tangible benefits. By taking a role at the front end of the framework, the Board will be appropriately positioned to conduct a thorough and objective analysis of the overall results at the back end of the process through the evaluation process. Utilities would have the flexibility to propose, manage, and execute annual DSM.

As noted under Comments regarding interpretation of the Directive, we suggest the Policy and Governance Structure should be separate from the Regulator.

The role of Regulator is to approve balanced Budgets Targets and DSM cost recovery from Rates and act as an independent arbiter for utility/ratepayer disputes.

As indicated by the Manitoba Public Utilities Board, if independent Governance is needed then a separate entity is required. In Ontario the Ministry of Energy could play this role.

Table 2 - Total Gas Sales and DSM Savings in Ontario¹⁵

	Union Gas Limited			Enbridge Gas Distribution Inc.			Ontario Total		
	Total Gas Sales (m ³)	Actual Annual Gas Savings (m ³)	DSM Savings as % of Gas Sales	Total Gas Sales (m ³)	Actual Annual Gas Savings (m ³)	DSM Savings as % of Gas Sales	Ontario Total Gas Sales (m ³)	Actual Annual Gas Savings (m ³)	DSM Savings as % of Gas Sales
2011	14,137,126,000	139,027,493	0.98%	11,503,300,000	77,226,003	0.67%	25,640,426,000	216,253,496	0.84%
2012	13,900,754,000	137,438,488	0.99%	10,499,300,000	60,135,753	0.57%	24,400,054,000	197,574,241	0.81%
2013	14,545,277,000	N/A	N/A	11,558,100,000	N/A	N/A	26,103,377,000	N/A	N/A
Average	14,194,385,667	138,232,991	0.99%	11,186,900,000	68,680,878	0.62%	25,381,285,667	206,913,869	0.82%

Union's higher total savings relative to Enbridge's savings is attributed to the higher proportion of the gas savings that is coming from its large industrial customers. Based on these figures, and subject to further information regarding achievable potential to be provided by the potential studies conducted by the two utilities, it appears to the Board that, at least directionally, long-term natural gas DSM targets, equal to an annual reduction of approximately 0.8% of the average total gas sales between 2011 and 2013 by 2020 may be appropriate. This is equivalent to approximately 1.2 billion m³ of natural gas saved by 2020. Depending on the results of the achievable potential studies, and assuming potential natural gas reductions are in the range discussed above, this could result in the Board expecting that the gas utilities would achieve natural gas reductions at the end of 2020 (comprising new savings in 2020, plus the savings from 2015 to 2019 that persist in 2020) equal to about 5% of the average total sales from 2011 to 2013 (0.8% of total annual gas sales reductions through DSM programs multiplied by the 6-years of the DSM Framework)

4.5 Request for Comment- Targets	Comments
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)?	Key drivers that inform the correct answer (range) are the forecast growth in gas sales, customer additions and average consumption of gas customers. Data filed in the Utilities 2013 rebasing applications show these trends.
2) Which option is the most appropriate for developing fair and objective, yet challenging, long-term natural gas savings targets?	AP plus trends in customer additions and average use/customer are better guides than gross sales or sales growth alone. Targets scan be aggregate or sectoral (residential, commercial and industrial) The exception is a separate target for the low income residential sector.
3) What information, other than what is listed above, should the utilities/Board consider when developing the long-term targets?	Technological change (existing stock) and Codes and Standards (new stock)

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?	NO the Utilities should propose Low Medium and High Targets based on their analyses of AP and other factors and provide Budgets for each with supporting analyses. This should be subject of Workshop(s).
5) Is there a different method in which long-term targets could be developed that the Board should consider?	The LTEP suggests certain levels of Conservation. Do the working papers suggest electricity vs natural gas?

5.1 Discussion of Budget Options

The Board is considering two options that would be appropriate for developing annual DSM budgets to achieve a balance between enabling the achievement of all cost-effective natural gas savings over the course of the DSM Framework, while also ensuring that rate impacts to customers are reasonable.

The Board has included two different options for how annual DSM budgets can be developed.

- **Option 1** – the gas utilities develop and propose DSM budgets which are a product of the analysis conducted relative to the amount of funding required to meet the long-term natural gas savings target.
- **Option 2** – the Board establishes a guideline for maximum DSM budget levels which considers rate impacts to customers but will allow the gas utilities to pursue significant natural gas savings between 2015 and 2020.

Table 4 – Natural Gas Sales and DSM Budgets in Ontario

	Union Gas Limited			Enbridge Gas Distribution Inc.			Ontario Total		
	Gas Distribution Margin (\$)	DSM Budget (\$)	DSM Spending as % of Dx Revenues	Gas Distribution Margin (\$)	DSM Budget (\$)	DSM Spending as % of Dx Revenues	Gas Distribution Margin (\$) ¹	DSM Budget (\$)	DSM Spending as % of Dx Revenue
2011	\$713,000,000	\$27,355,000	3.8%	\$1,021,000,000	\$28,074,443	2.7%	\$1,734,000,000	\$55,429,443	3.2%
2012	\$727,000,000	\$30,954,000	4.3%	\$1,015,000,000	\$30,910,000	3.0%	\$1,742,000,000	\$61,864,000	3.6%
2013	\$772,000,000	\$31,641,000	4.1%	\$1,069,000,000	\$31,588,200	3.0%	\$1,841,000,000	\$63,229,200	3.4%
Average	\$737,333,333	\$29,983,333	4.1%	\$1,035,000,000	\$30,190,881	2.9%	\$1,772,333,333	\$60,174,214	3.4%
2020*		\$46,320,000	6.0%		\$64,140,000	6.0%		\$110,460,000	6.0%

¹⁸ For Union, gas distribution margin = total gas sales and distribution revenues less the cost of gas. Gas sales and distribution revenue is the sum of the delivery revenue and gas supply revenue (and earning sharing, if applicable). For Enbridge, gas distribution margin = gas commodity and distribution revenue plus transportation of gas for customers less the cost of gas, which includes gas commodity and distribution costs, excluding depreciation.

Table 5 – Natural Gas Sales & DSM Budgets (& Shareholder Incentives) in Ontario¹⁹

	Union Gas Limited			Enbridge Gas Distribution Inc.			Ontario Total		
	Gas Distribution Margin (\$)	DSM Budget incl. Shareholder Incentive (\$)	DSM Budget (incl. Incentives) as % of Distribution Margin	Gas Distribution Margin (\$)	DSM Budget incl. Shareholder Incentive (\$)	DSM Budget (incl. Incentives) as % of Distribution Margin	Gas Distribution Margin (\$) ¹	DSM Budget incl. Shareholder Incentive (\$)	DSM Budget (incl. Incentives) as % of Distribution Margin
2011	\$713,000,000	\$36,038,100	5.1%	\$1,021,000,000	\$34,843,978	3.4%	\$1,734,000,000	\$70,882,078	4.1%
2012	\$727,000,000	\$39,164,417	5.4%	\$1,015,000,000	\$39,070,306	3.8%	\$1,742,000,000	\$78,234,723	4.5%
2013	\$772,000,000	N/A	N/A	\$1,069,000,000	N/A	N/A	\$1,841,000,000	N/A	N/A
Average	\$737,333,333	\$37,601,259	5.2%	\$1,035,000,000	\$36,957,142	3.6%	\$1,772,333,333	\$74,558,400.50	4.3%
2020*		\$53,268,000	6.9%		\$73,761,000	6.9%		\$127,029,000	6.9%

As noted above in Concentric’s jurisdictional review, it was found that of the twelve leading US states included in its study, natural gas DSM budgets were approximately 23% of electricity CDM budgets. This finding is consistent to the overall US average as reported by the American Council for an Energy-Efficient Economy (“ACEEE”)²¹.

In Ontario for 2013, the natural gas distribution sector had \$4.51 billion²² in total revenues for 2013 whereas the electricity distribution sector had \$15.85 billion²³ in total revenues. The budget for the Ontario Power Authority’s 2015-2020 electricity Conservation First Framework is projected to be approximately \$2.4 billion²⁴ over six years. The proposal under Option 2 would provide DSM funding in a similar ratio to what has been the experience in the US and to the relative total revenues of the distribution sectors in Ontario. Additionally, as part of Option 2, the gas utilities would propose annual budgets for each year of the DSM Framework. The Board would expect that the annual budget proposals would transition the gas utilities’ 2014 DSM budget levels gradually up to the budget guidelines outlined above in an effort to appropriately mitigate rate impacts.

Option 2 proposes that the Board establish a guideline for the maximum annual DSM budget which takes into consideration the rate impacts to customers. Ultimately, the utility would still have the option of proposing an alternate budget in its application for approval of its DSM Plan to the Board in order to achieve the long-term targets, appropriately supported by evidence.

The Concentric jurisdictional review is considerably flawed in regard to Budgets and other comparators. It has not found appropriate “like for like” jurisdictions and its screening/selecting factors are too simple. For example size, distribution customers, climate, gas consumption % of total energy use etc. The result is that this review should be given limited weight in determining Budgets and other Framework parameters.

5.4 Request for Comment Budgets.	Comments
1) Should the Board provide a budget guideline that sets out the expected maximum DSM budgets?	NO only a cap based on distribution rate impact. The Utilities should provide Low Medium and High Targets either in aggregate, or on a Sectoral basis (Residential, Commercial and Industrial) and estimate associated sectoral and total budgets. The exception would be the target and budget for low income programs would be High.
2) If the Board decides to establish a budget guideline, is 6% of 2013 distribution revenue appropriate (plus applicable shareholder incentives)?	NO -only as a possible Cap.
3) What information, other than what is listed above, should the utilities/Board consider when developing the long-term budgets?	Affordability to non-participants when forecast rate increases under Union and EGD IRM plans are included.
4) Is there a different method to establish budgets that the Board should consider?	

6.0 SHAREHOLDER INCENTIVES

As part of the 2012 DSM Guidelines, the Board made an annual performance incentive of \$9.5 million available to the gas utilities that was developed in relation to their 2011 DSM budgets of \$28.1 million and \$27.4 million for Enbridge and Union respectively. The incentive amount was a continuation of what had been developed and approved as part of the 2006 Generic DSM Proceeding²⁵ where the Board established a shared savings mechanism that provided the gas utilities with a return equal to a maximum of 5% of the TRC savings it had achieved.

As part of the 2012 DSM Guidelines, the Board proposed to transition from a strictly TRC-based incentive mechanism to something that allowed the gas utilities to be rewarded for undertaking other important activities, such as an increase in the delivery of long-life energy efficiency measures. Since the current shareholder incentive is not directly a product of a portion of the TRC benefits, the Board determined an amount similar to that which was approved in the past was reasonable, given that the incentive levels in the past resulted in the desired behaviours of the gas utilities actively pursuing DSM and dedicating the necessary resources to achieve the intended goals. As part of the 2012-2014 DSM Plan filings, subsequent budget increases allowed for larger low-income program offerings for both gas utilities, increasing the maximum performance incentive to approximately \$10.5 million for achieving 150% of the DSM targets, a potential for an approximately 30% return in relation to the DSM budget. The incentive for meeting 100% of the target was \$4.2 million.

Table 6 – DSM Budgets and Shareholder Incentive Amounts²⁶

	Union Gas Limited			Enbridge Gas Distribution Inc.			Ontario Total		
	DSM Budget (\$)	Shareholder Incentive Paid (\$)	DSM Incentive as % of DSM Budget	DSM Budget (\$)	Shareholder Incentive Paid (\$)	DSM Incentive as % of DSM Budget	DSM Budget (\$)	Shareholder Incentive Paid (\$)	DSM Incentive as % of DSM Budget
2011	\$27,355,000	\$8,683,100	31.7%	\$28,074,443	\$6,769,535	24.1%	\$55,429,443	\$15,452,635	27.9%
2012	\$30,954,000	\$8,210,417	26.5%	\$30,910,000	\$8,160,306	26.4%	\$61,864,000	\$16,370,723	26.5%
2013	\$31,641,000	N/A	N/A	\$31,588,200	N/A	N/A	\$63,229,200	N/A	N/A
Average	\$29,983,333	\$8,446,759	29.1%	\$30,190,881	\$7,464,921	25.3%	\$60,174,214	\$15,911,679	26.4%
2020*	\$46,320,000	\$6,948,000	15.0%	\$64,140,000	\$9,621,000	15.0%	\$110,460,000	\$16,569,000	15.0%

The Board has included two options for how annual shareholder incentives can be determined.

- **Option 1** – the shareholder incentive is determined as a percentage of the gas utility's annual DSM budget.

Although graduated an incentive based on budget is inappropriate because Budget is an input rather than output. Incentives should be based on outputs such as lifetime M3 of gas saved for each program or Cost/Effectiveness Cost/M3 saved for each program and aggregated on a scorecard (see below).

- **Option 2** – the utilities propose a pay-for-performance funding and incentive recovery model, with applicable programs, which provides both funding recovery and incentive payments through a single rate (\$/m³) to the utility, but only for verified natural gas savings.

\$/m3 is a simple metric, but in our view should not be applied across different programs due to low m3/\$ available in the Residential Sector compared to Industrial sector. It also does not address *effectiveness/value*. A better measure would be m3/\$ budget at a program/sector level for each program and then results aggregated on a weighted scorecard, a graduated 75:100:125 percent of target scale would also be used.

6.4 Cost Efficiency Incentive

The cost-efficiency component will allow the gas utilities to carry forward and use any unspent, approved DSM budget amounts from one year to the next with no impact on the following year's DSM targets. Essentially, if a gas utility meets 100% of its target for a particular program at a lower cost than anticipated in one year, the gas utilities will be able to carry forward any unspent DSM funds allocated to that program for use in the following year. The funds carried forward would be in addition to the approved budget level for the following year and enable the gas utility to achieve the following year's annual target with the benefit of incremental funds. This is a significant benefit, as the gas utility's targets for the following year were set assuming a lower funding level. If the gas utility is able to carry forward excess funds into the following year, it has increased its potential to achieve its target and earn a greater shareholder incentive.

Disagree with this proposal as framed. The Incentive earned for each program per year should include cost-effectiveness. Carrying forward Budget for each program is appropriate and this will allow a higher level of achievement next year, but this should not change the cost-effectiveness measure of each program and related incentives during the rate year.

6.5 Request for Comment Shareholder Incentive	Comments
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?	NO a cap on the amount to be recovered in rates is appropriate, but the structure of the incentive should be based on pay for performance effectiveness/value.
2) Is it appropriate to tie the maximum incentive amount to the DSM budget?	NO based on Results - Pay for Performance
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.	For achievement of 100% of Sectoral target (m3 savings) at average cost of \$/m3 (negotiated) provides amount. Each sector should have a weighting on overall scorecard. Refinement is that bonus for Deep Savings can be earned in any sector. Low income treated as a separate sector and incentive can either be included or added to that from Scorecard.
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.	The parameters should be negotiated with ratepayers who pay the incentive (subject to board approval).
5) What other aspects should the Board consider when developing the shareholder incentive? Why?	The current incentives are “rich” and should be benchmarked against other incentives available to the utilities under IRM Plans.
6) Is a pay-for-performance funding/incentive model appropriate?	YES

7.0 PROGRAM TYPES

The Board expects that DSM programs will enable a reduction in both consumption levels and overall demand for natural gas. The Board considers the following components as essential elements to be included in the gas utilities' DSM Plans to enable the achievement of greater long-term natural gas savings, to better help customers manage their overall usage and ultimately their bills, and to meet the government objectives reflected in the Conservation Directive and the LTEP. The list reflects key priorities the Board expects the gas utilities to focus on and transition DSM activities towards over the course of the new DSM framework.

- Provide financial incentives so customers can pursue energy efficient upgrades that will deliver natural gas savings over the long-term;
- Extend programs for low-income consumers across the province;
- Provide expert, value-added technical advice through energy management services;
- Provide educational information on how a customer can use natural gas more efficiently;
- Benchmark energy usage to enable detailed data analysis and comparison of usage with other customers and pre/post program participation;
- Develop on-bill financing options for conservation measures;
- Target initiatives in areas in which new or replacement of natural gas infrastructure is expected to be required, and,
- Integrate and coordinate DSM programs with electricity CDM programs.

The Board has provided a specific discussion of program types in the DSM Guidelines in Section 2.0.

With natural gas DSM programs fully operational in many other jurisdictions, the Board expects that as part of their DSM Plan filings, the gas utilities will include a jurisdictional review in support of any new programs they are proposing to ensure these programs have resulted in the intended benefits and achieved the expected results. The gas utilities should strive to build on experience of other leading jurisdictions to ensure that program offerings throughout the province are those which will provide customers with the greatest value for rate payer dollars and meet the long-term DSM targets in the most efficient manner. Further, the gas utilities' review of best industry practices should outline any key observations and trends amongst the jurisdictions included in the review.

7.1 Request for Comment Program Types	Comments
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.	Fuel Substitution Programs should be addressed both in this DSM Framework and the OPA CDM Framework. Promoting switchable end uses should benefit consumers without material impact on the Ontario environment.

2) What level of funding is appropriate for low-income programs relative to the overall DSM budget?	The current level should be reviewed and if possible, benchmarked. The key is the whole house/housing unit should receive the maximum economic upgrade at no cost to the occupant. At present eligibility of certain measures is constrained by the 0.7 TRC floor for the LI Portfolio. BCUC has lowered this to 0.5 and the impact of this change should be considered for Ontario.
3) Are DSM programs for large volume customers appropriate and should both gas utilities be permitted to offer these programs?	Lost Opportunities have to be balanced as subsidizing certain members of a sector. Programs such as Run it Right and Benchmarking that do not provide major financial incentives should be available universally.

8.0 PROGRAM EVALUATION

In order to increase transparency, objectivity and efficiency in final program evaluation results, the Board is of the view that it is in the best position to coordinate the evaluation process throughout the DSM Framework period (i.e., 2015 to 2020).

By taking on the coordination function of the EM&V process, the Board can ensure an open process, where it consults with both the gas utilities and stakeholders at appropriate junctures in the process, seeking input on evaluation methodologies, key program features to ensure that the operational characteristics of the program generate evaluations are robust and accurate. The Board will conduct annual evaluations to verify that programs have resulted in the intended benefits and to inform future program design and delivery. In taking a more central role in the EM&V process, the Board will ensure that it is conducting an appropriate level of oversight of the framework at the back end of the process as well as establishing expectations at the front end of the process.

It appears that no Stakeholder input or debate is requested regarding the Board assuming the EM&V role. Nonetheless we have some comments.

The primary issues are access to participant and Utility records and cooperation in interpretation of results. These issues exist now and will not disappear with Board staff and Board appointed Auditor. The OPA provides this role for the CDM Sector, but the critical issue of the Board undertaking the EM&V role relates to the Shareholder Incentive that is strongly tied to audited results.

If there are disputes between the utility and the Board (representing ratepayers) can these be fairly arbitrated, if the auditor was appointed by the Board and Board Staff has reviewed and accepted the results. There will be more rather than less adjudicative processes to determine the results applicable to the disposition of incentive and lost revenue amounts for both gas utilities.

The Board's practice in auditing Licenced Electricity distributors should be key guide how Audit /Evaluation of Gas DSM Results should be addressed.

8.1 Input Assumptions

The Board is of the view that it should impart its objectivity and coordinate the process of annually updating the Technical Review Manual which contains the specific assumptions related to a number of different energy efficient technologies and measures. The Board was involved in developing input assumptions in 2009 when it engaged an expert consultant to assist in updating the input assumptions list at that time ²⁸ proposes to undertake annually updating input assumptions are included in the DSM Guidelines in Section 3.1.

8.2 Screening

In order to determine which DSM programs should continue as part of the gas utilities' DSM Plans, the gas utilities should assess their programs using a screening process to test the cost-effectiveness of delivering the program. The Board is of the view that the gas utilities should screen all prospective programs using the Total Resource Cost ("TRC") test. The TRC test measures the energy related benefits and costs of DSM programs experienced by both the gas utility system and program participant for as long as those benefits and costs persist. In addition to the TRC test, the gas utilities should also use the Program Administrator Cost ("PAC") test as a secondary reference, which can assist with prioritizing which programs deliver the most effective results. The PAC test measures the gas utilities' avoided costs and the costs of DSM programs experienced by the gas utility system. The gas utilities should identify the programs that pass the TRC test but fail the PAC test and discuss the reasons the programs are still appropriate.

Special provisions for Low Income Programs should continue.

10.0 INTEGRATION & COORDINATION OF DSM AND ELECTRICITY CONSERVATION PROGRAMS

Coordination and integration of DSM programs with electricity distributor or OPA CDM programs should be pursued to achieve efficiencies and convenient, integrated programs for electricity and natural gas customers, where appropriate. By combining efforts in key program areas, it should allow greater possibilities for an increase in total combined energy savings at reduced program delivery costs and administrative overhead.

For consistency purposes, the Board will monitor the developments of how the OPA plans to address integrating and coordinating electricity CDM programs with natural gas DSM programs and govern the gas utilities future DSM offerings accordingly.

Comment

This Section is weak and places the onus on Union and EGD. The Board needs to take a direct role and request the Minister to order the OPA to enter into Memoranda of Understanding with Union and EGD which in turn bind the OPA to ensure coordination of CDM and DSM programs occurs across the Province.

11.0 FUTURE INFRASTRUCTURE PLANNING ACTIVITIES

In order for the gas utilities to fully assess future distribution and transmission system needs, and to appropriately serve their customers in the most reliable and cost-effective manner, the Board is of the view that DSM should be considered when developing both regional and local infrastructure plans. This is consistent with the direction outlined in the LTEP and the Conservation Directive, which state that the Board shall take steps it considers appropriate towards implementing the government's policy of putting conservation first in electricity distributor and gas distributor infrastructure planning processes at the regional and local levels, where cost-effective and consistent with maintaining appropriate levels of reliability.

Further, the Board is of the view that the gas utilities should each conduct a study, completed before the mid-term review of the DSM Framework and based on a consistent methodology, to determine the appropriate role that DSM may be able to serve in future system planning efforts. As part of the long-term DSM Plan filings, the gas utilities should propose an appropriate transition plan to implement DSM as part of its future infrastructure planning efforts. At a minimum, the gas utilities should provide evidence of how DSM has been considered as part of all leave to construct applications made with the Board. This work may be informed, or influenced by other related consultations to be initiated by the Board.

This section falls short of requiring Integrated Resource Planning in development of the gas transmission and distribution infrastructure Ontario.

The Board should conduct a “Best Practices” review and get feedback from the Utilities and Stakeholders and then Issue an IRP Guideline.

Draft Filing Guidelines to the Demand Side Management Framework for Natural Gas Distributors EB-2014-0134

Comment

It would have been helpful to the consultation process to highlight proposed changes to the current EB-2008-0346 Guidelines, thus avoiding the need for stakeholders to spend time comparing current and proposed 2015 Guidelines.

From such a quick comparison, this Draft Document appears similar to the current version with the exception of significant changes regarding:

- **Program Types**
- **TEC leadership**
- **Audit Provisions**

In addition, the Guidelines do not include a number of important Sections such as Stakeholder Engagement and Metrics, that we assume will be added later.

2. PROGRAM TYPES

The Draft Guidelines appear to have abandoned Resource Acquisition Programs from the proposed Portfolio. The RA type of program will continue to be a main stay of the residential sector programs augmented by Market Transition Programs.

2.6 Low-Income Programs

The Low Income Eligibility Criteria need to be amended to address the Private Multi-Family Residential Building Sector (Part 3 buildings) based on the pilot programs of EGD and the Research undertaken by Union Gas

3. INPUT ASSUMPTIONS, SCREENING & AVOIDED COSTS

As discussed in the DSM Framework, the Board is proposing to lead the exercise to annually update the TRM throughout the duration of the new DSM Framework term (i.e., 2015 to 2020). The Board's proposed role with respect to coordinating any updates to the standard list of input assumptions would be complementary and related to its role in leading the evaluation process, also discussed in the DSM Framework. The input assumptions will be updated regularly to reflect the relevant findings in the evaluation process. The Board's process will seek appropriate input, considerations and expertise from key stakeholders to inform future updates to the TRM manual.

It is not clear exactly what changes will occur to the TEC and TRM under Board Leadership. Perhaps the Board can clarify this.

3.2.3 TRC Test Calculation

To recognize that all programs may not pass the TRC test, the utility should ensure its overall DSM portfolio has a TRC ratio of 1.0 or greater. Further, since low-income natural gas DSM programs may result in important benefits not captured by the TRC test, these programs should be screened using a lower threshold value of 0.70 instead.

As noted in comments on the Draft Report, the 0.7 TRC Low Income portfolio screening criterion should be reviewed in light of current experience and the BCUC decision to allow 0.5. If measures that have long term energy and health benefits are now being excluded, then the utilities should propose a change, together with Budget and other considerations.

4. PROGRAM EVALUATION (including Adjustment Factors)

4.1 Evaluation Process

For the duration of the term of the new DSM Framework (i.e., 2015 to 2020), and as discussed in the DSM Framework, the Board will take on the management function of the EM&V process, ensuring it to be an open process, where the Board will consult with both the gas utilities and stakeholders at appropriate junctures, seeking input on evaluation methodologies, key program features to ensure that the operational characteristics of the program generate the data and information that will provide the greatest assistance, and enable the evaluations to be robust and accurate. The Board will conduct annual evaluations and audits to verify that programs have resulted in the intended benefits, and to inform future program design and delivery.

In taking a more central role in the EM&V process, the Board will ensure that it is providing an appropriate level of oversight of the framework at the back end of the process as well as establishing expectations at the front end of the process.

The evaluation function of DSM programming and administration contains various steps throughout the process. The components of the evaluation process are outlined below along with the responsibilities of the respective parties:

- Evaluation Plan – role of the gas utilities and a required component of DSM Plan filings.
- Draft Evaluation Report – role of the gas utilities. This document will inform the larger review of program results managed by the Board.
- Independent Third Party Audit – role of the Board.
- Final Audit & Evaluation Report – role of the third party auditor. This report will provide final, audited and evaluation results related to the DSM programs delivered in the previous year.

The Draft Report and Guidelines propose elimination of the current Audit Committees and elimination of the Utility-selected Independent Auditor. We have already commented that this change creates loss of independence of the Board and also eliminates Stakeholder engagement as well as loss of process control for the utilities, (post filing the Draft Evaluation Report on April 1 of the following year).

Missing Sections of Draft Guidelines

Stakeholder Engagement

EB-2008-0346 Guidelines

16.1 Stakeholder Engagement Process

All participants in the Board's consultation on the development of these Natural Gas DSM Guidelines (EB-2008-0346) should be invited to participate in the natural gas utilities' DSM stakeholder engagement process. As part of their stakeholder engagement process, each natural gas utility should hold a minimum of two meetings every year and invite all such participants (the "General DSM Meeting").

Among other things, the purpose of the General DSM meetings could include:

Reviewing annual DSM results contained in the Draft Evaluation Report, the Audit Report and the Final Evaluation Report;
Selecting any subcommittee that may be part of the stakeholder engagement process; and
Providing advice on the development and operation of the natural gas utilities' DSM plan.

Terms of reference ("ToR") for the stakeholder engagement process should be developed by the natural gas utilities in cooperation with their stakeholders and submitted to the Board as part of the natural gas utilities' multi-year DSM plan application. The ToR should build upon experience to date and reflect, to the extent possible, consensus views of the natural gas utilities and their stakeholders. The ToR should set out any revision to the process for selecting the members of any subcommittee or confirm the continuation of the current approach.³⁴

In drafting ToR for the stakeholder engagement process, the natural gas utilities and their stakeholders should consider including the continued advisory role of their stakeholders, or a subcommittee thereof, in relation to the following matters:

Development of the DSM plan including allocation of DSM budget, target and metrics;
Consultation prior to the filing of the DSM plan on evaluation priorities over the lifetime of the plan;
Review and comment on evaluation study designs;
Review of the scope and results of evaluation work completed on new programs introduced over the course of the DSM plan;
Selection of an independent auditor to audit the Draft Evaluation Report and determine the scope of the audit. Stakeholders, or a subcommittee thereof, should ensure that all comments on the Draft Evaluation Report that arise from the General DSM Meetings are reviewed by the auditor;

Following the audit, review the Evaluation Plan annually to confirm the scope and priority of identified evaluation projects; and

Stakeholders, or a subcommittee thereof, should also be involved in the preparation of the natural gas utilities filing under section 2.1.12 of the Natural Gas Reporting & Record Keeping Requirements Rule for Gas Utilities. Stakeholders, or the subcommittee thereof, should provide a final report (the “Stakeholder Report”) within 10 weeks from the date of receipt of the Draft Evaluation Report and supporting evaluation studies from the utilities or the date of hiring of the auditor, whichever is later. Recommendations with respect to the disposition of any balances in the DSMVA, LRAMVA and DSMIDA should be included in the Stakeholder Report.

Comment

The omission of this Section and more importantly no discussion, either in the Report, or proposal in the Guidelines, is both disappointing and troubling for ratepayers and other key stakeholders. We suggest that the Board remedy this deficiency as soon as possible.

Respectfully Submitted on October 15, 2014.

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