EB-2014-0134

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 Ontario Energy Board on the draft DSM Framework and Guidelines for gas utilities for 2015-2020

SUBMISSIONS OF THE SCHOOL ENERGY COALITION

October 15, 2014

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0 OVERALL COMMENTS

0.1 *Introduction*

0.1.1 On March 31, 2014 the Minister of Energy issued a directive to the OEB (the "OEB Directive") requiring the Board to develop, by December 31, 2014, a framework for gas conservation programs covering the period 2015-2020 inclusive. The OEB Directive includes a number of key requirements to be included in that gas conservation framework.

0.1.2 On September 15, 2014, the Board released a draft of that framework (the "Draft DSM Framework"), together with a draft set of filing guidelines (the "Draft DSM Guidelines") to assist the gas utilities in developing six year DSM plans for approval by the Board. The Board has requested comments from stakeholders on the Draft DSM Framework and the Draft DSM Guidelines.

0.1.3 These are the submissions of the School Energy Coalition in response to the Board's request.

0.1.4 Between the date of the OEB Directive, and the date the Draft DSM Framework was issued, Board Staff convened a working group to solicit input on its development. Twelve stakeholders were invited to participate in the working group, including SEC. Notably, one of the most important stakeholders in Ontario conservation matters, the Green Energy Coalition, was not invited to participate. SEC brought this to the attention of Board Staff at the time the working group was formed, but it did not change the view of Board Staff on whether GEC should participate. This was a significant error in judgment, in our submission.

0.1.5 Notwithstanding the fact that the working group met several times to consider the issues, the Draft DSM Framework and Guidelines appear to be largely the work of Board Staff, rather than being based on input from the working group. Thus, it would be wrong to consider the current Draft Board Framework and Guidelines as being the "product" of a stakeholder consultation. While some of the ideas presented in the working group are included, so the working group cannot be totally written off as simply "window dressing", the Draft Board Framework and Guidelines clearly are based on a paradigm that was in the minds of Board Staff from the outset, and is for the most part inconsistent with the advice given to Board Staff by the stakeholders on the working group.

0.1.6 SEC notes that the OEB Directive does not stipulate whether the framework to be developed should be a binding rule or code, as allowed under the OEB Act, or a non-binding policy framework, as is the case with the DSM Framework and Guidelines dated June 30, 2011. The Board's letter of September 14, 2014 opts for the latter approach, which would allow the gas utilities more leeway in the

development of their actual 2015-2020 DSM Plans[1]. SEC's submissions are made in that context.

0.1.7 The ratepayer and environmental groups who intervened in this proceeding have worked together throughout this consultation process to avoid duplication, generate ideas, and understand diverse perspectives. We have exchanged drafts of positions on issues, in some cases also exchanging partial drafts of submissions. SEC and others have also engaged in an ongoing dialogue with Union Gas and Enbridge Gas Distribution with respect to the issues. We have been assisted in preparing these submissions by that co-operation amongst parties (although it was limited somewhat by the short time frames).

0.1.8 SEC also did something highly unusual in this proceeding. Normally, the positions of SEC are guided by the energy sector expertise of its counsel and consultants, and by the education sector expertise of the senior management at SEC, informed by ongoing feedback from school boards on their goals and needs. In this case, because school boards are market leaders in energy efficiency, care deeply about conservation, and have considerable on-the-ground knowledge in this area, a number of school boards asked to have direct input on the positions SEC would be taking. To that end, drafts of SEC positions were circulated to key staff of every school board in Ontario in September. The feedback received from a number of interested school boards, while supporting the direction SEC was taking, added perspective and information that was particularly valuable on this important subject.

0.1.9 Except for this first Section, and Section 12, the numbering of Sections in these Submissions is consistent with the numbering in the Draft Framework, but the numbering of the subsections follows the subject-matter, rather than the subsections in the Draft Framework.

0.2 ***Overall Concerns of the School Energy Coalition***

0.2.1 The Draft DSM Framework and Guidelines exhibit, in SEC's opinion, two main failings that call most of the proposed Board policy into question. Those failings are:

(a) No attempt to recognize and promote the gas utilities' willingness and ability to be market leaders.

(b) Rejection of the current, highly successful collaborative model in favour of a bureaucratic model in which DSM programs and results would be controlled by Board Staff, and would thus become more adversarial.

[1] See Draft DSM Framework, p. 2.

We will deal with each of these fundamental flaws in general terms in this section, and then discuss the details in subsequent sections where the impacts actually arise.

0.2.2 ***Market Leadership***. The overriding theme of the Draft DSM Framework appears to be "let's do what everyone else is doing". This comes up in the context of setting budgets, targets and incentives, as well as in program design. In our submission, this is a failure to recognize the current state of the gas utilities' DSM activities, and, perhaps worse, is a failure of imagination.

0.2.3 One of the advantages we have in Ontario is that our gas utilities have been providing DSM programs since at least 1995 (under the auspices of a Board-approved framework in EBO 169-III). To put that in perspective, Efficiency Vermont, considered one of North America's leaders in gas DSM, started operations in 2000, although Vermont Gas had DSM programs starting in 1994[2]. In the US, the earliest electricity DSM programs were in the mid 70s[3], in response to the oil crisis, but they were still highly controversial until the mid 90s[4]. The very earliest gas DSM programs appear to be in the late 80s, but were small. When Ontario moved forward with gas DSM in 1995, it was not first, but it was in the forefront of North American gas DSM.

0.2.4 Further, the level of DSM in Ontario has consistently been in the top ten in North American jurisdictions. For example, in 2012, the last year for which SEC has publicly-available statistics[5], the total amount spent by Ontario gas utilities on DSM ranked sixth in North American jurisdictions:

Jurisdiction	Budget ($millions)
California	263.7
New York	154.7
Massachusetts	137.0
Illinois	120.2
New Jersey	86.9
Ontario	60.0

0.2.5 Further, from the same source, only two US states – Vermont and Minnesota (notably, none of the big spenders) – had greater DSM savings as a percentage of retail sales of gas[6].

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[2] "DSM in North American Gas Utilities", InDeco Consulting, 2004 (report prepared for Enbridge Gas Distribution), at p. 51.
[3] Generally thought to have started with the Energy Policy and Conservation Act, 1975, and essentially mandated with the Public Utility Regulatory Policies Act, 1978, known as PURPA.
[4] In 1994, for example, Potomac Power was denied recovery for the cost of its programs, on the basis that it could not demonstrate that it had actually saved any electricity.
[5] Source: ACEEE 2013 State Energy Efficiency Scorecard.
[6] See also Concentric Report, p. 5-6. The Ontario percentage is 1.15%: 197.6 million cubic meters on sales of 17,197.1 million. As Concentric notes, the Ontario figures include Industrial, while the US figures apparently do

0.2.6 The point, of course, is that after twenty years, and considerable activity, the Ontario gas utilities have developed a significant DSM expertise, and along the way have harvested a large percentage of the most readily available gas savings.

0.2.7 In our submission, "more of the same" represents both a recipe for failure (as there is less of "the same" to get), and a squandering of two decades of investment in Ontario DSM expertise.

0.2.8 Instead, SEC believes that the Board should be challenging the gas utilities to be, not "among the best", but simply "the best", through innovative programs and aggressive targets. SEC believes that, rather than focusing on doing what has already been done elsewhere, the gas utilities should be initiating programs that attract attention from other jurisdictions, who want to copy what we are doing.

0.2.9 Further, SEC believes that in that pursuit, the gas utilities should be encouraged to focus more on early adopters, and leading edge technologies and measures. Budgets, targets and incentives should be structured so that the "hard stuff" is the stuff the utilities most want to accomplish.

0.2.10 We note that this is not just a matter of respecting the history and expertise of Enbridge and Union. It is also about spending limited resources wisely. Customers are inundated with many voices urging them to conserve. The measures they can implement range from easy (short payback, low hassle factor) to very difficult (higher risk, lower cost/benefit ratio), and with little or no effort on the part of the utilities, customers will choose to implement the easy stuff. By contrast, there are some customers who can be convinced to implement the more difficult measures, providing leadership and achieving savings that would otherwise simply not be available.

0.2.11 Under a "business as usual" approach, the utilities will be incented to do as much of the easy stuff as they can. The cost is lower, and their risk is lower, while their profit from doing so is the same. By focusing on the easy stuff, which the Draft DSM Framework appears to support, the utilities will use up their resources on savings that are less valuable, because the barriers to their implementation are lower. At the same time, the savings available for the hard stuff, where barriers to implementation are higher, must be foregone.

0.2.12 Simply put, if you can't spend enough to get ALL savings (and clearly you can't), then which ones will be foregone? The answer is that, if incentives are equal, the easy ones will use up the budget, and the hard ones will go by the wayside.

0.2.13 SEC believes that the Draft DSM Framework should be rewritten to emphasize the

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not. We have been unable to find figures from the US that are directly comparable.

expectation that Enbridge and Union will develop and implement innovative, market leading programs, and will work closely with their most efficient customers to implement leading edge DSM measures.

0.2.14 ***The Role of Board Staff.*** The second, perhaps underlying, theme of the Draft DSM Framework and Guidelines is an increase in bureaucratic control of the DSM programs and process by Board Staff. Almost no stakeholders – utilities, ratepayers, environmental groups - think this is a good idea, for at least two reasons. First, the current collaborative process is working well. Second, the Board Staff proposal makes no attempt to identify any benefits of the change, particularly in light of the obvious disadvantages that it would entail. In short, Board Staff does not describe any value-added they would bring to the table.

0.2.15 Is the collaborative process working well? The Draft DSM Framework says that it is not, at least in the context of impact evaluation, citing two recent cases in which audit results were challenged by stakeholders (led by SEC)[7].

0.2.16 With respect, that entirely misses the point. The collaborative process has resulted in all or almost all stakeholders reaching consensus on budgets, targets, incentives and programs, including revisions to those components, and on results for most years. In the last year, one dispute (over control of the custom process verification process by the utilities) has boiled over into two contested proceedings. This is a dramatic improvement over the number of contested DSM proceedings in earlier years.

0.2.17 The test of success of the collaborative process is not perfection, i.e. all issues are resolved by consensus. In fact, were that to be the case, the likely reason would be that either utilities, or stakeholders, were insufficiently strong or experienced to pursue their own perspective, leaving the collaboration one-sided. Any fair and balanced collaborative process must have a method of dispute resolution in the event that consensus is not achievable. The hope is that the dispute resolution method is not often used, as has been the precise case with DSM in Ontario.

0.2.18 The test of success of this collaborative process should be the continuing evolution of DSM programs in Ontario. The utilities, working closely with their stakeholders, continue to improve their programs, their results, and their processes. Much of the creativity that has been shown arises out of the interaction between the utilities and their stakeholders.

0.2.19 This leads to the second reason to reject increased involvement of Board Staff: their failure to identify any value-added they will provide.

0.2.20 Is that value-added expertise? Clearly not. With all due respect to Board Staff, the

[7] Draft DSM Framework, p. 32.

collective DSM experience on the audit committees usually exceeds the total DSM experience of all Board Staff, and the DSM experience on the Technical Evaluation Committee is that much more still. The pleasant reality is that, between the stakeholders (including the utilities), there is a wealth of both on-the-ground and theoretical expertise to call on in forming the various stakeholder committees.

0.2.21 Is that value-added independence? No, again that would be incorrect. Board Staff are not adjudicators. That is what the Board members do. The goal of independence is achieved in the DSM processes by hiring independent outside consultants, jointly overseen by utilities and their stakeholders. Where independent supervision is required, the Board in its adjudicative role provides that result. Board Staff does not, and legally cannot, do that.

0.2.22 The proposals for more Board Staff involvement miss, in our submission, the key structure of DSM in Ontario. All decisions with respect to budgets, programs, incentives, and results, must legally be made by the Board in its adjudicative role, because they involve the spending of ratepayer money. The highly collaborative existing process means that most of those decisions are presented to the Board as a consensus, so that the Board does not have to deal in those cases with an adversarial debate.

0.2.23 The need to have Board decisions would not change if Board Staff had a greater involvement. What would likely change is the number of those decisions that dealt with a utility/stakeholder consensus. Currently, collaboration is integrated into the process on an ongoing basis. If Staff takes a more active role, the stakeholders and utilities will have less dialogue, and thus more opportunity for disputes.

0.2.24 We note, as well, that the Board in dealing with disputes would have less ability to rely on the assistance of Staff. Because Staff would be involved directly in establishing budgets or targets, or evaluating results, they would not be able to participate in contested proceedings except as parties. Far from being independent, their initial work would leave them legally conflicted.

0.2.25 We note that the Draft DSM Framework and Guidelines still assume that Board Staff will actively consult with stakeholders in the process of managing the DSM process. The participants have seen exactly what that means in the context of the working group: anything that is inconsistent with Board Staff's predetermined views does not find its way into the proposals Staff puts forward[8].

0.2.26 A bureaucratic takeover of DSM by Board Staff is simply not sensible. The current process is providing improvements every single year, there is no apparent value to be added by increasing Staff's role, and there are significant disadvantages to doing

[8] Not even, in fact, as rejected ideas, with some kind of rationale for rejection; input they don't like is apparently simply omitted from what is presented.

so.

0.2.27 More than all of those things, though, it would be a rejection by the Board of the desire of utilities and stakeholders to work together to achieve mutually desired goals. This is the wrong message for the Board to send, and it is directly contrary to the increasing customer focus that the Board has adopted.

0.2.28 We do note one other thing. The conservation programs on the electric side are developed and managed by the Ontario Power Authority, using the bureaucratic model supported by license conditions imposed on the LDCs. There are, however, two key differences between the OPA and CDM, and the OEB and DSM.

0.2.29 First, the OPA is developing the programs themselves, for delivery by the LDCs as their delivery agents only. This is because the LDCs have little experience with developing conservation programs, and there are many LDCs that will never have sufficient resources to do so. Contrast that with the gas utilities, who have lots of experience, and have demonstrated that they can be in charge of development and implementation, and do a good job. Unless Board Staff plans to start developing the programs as well as supervising delivery, the need for a new bureaucracy is not apparent.

0.2.30 Second, the OPA operates under a legislative framework that requires the bureaucratic model. By contrast, the OEB operates under a framework that requires the adjudicative model. Trying to develop a Board solution that is inconsistent with its legislative framework is unwise, and likely to result in difficulties.

0.2.31 And how is the OPA model working out so far? Despite the continued availability on the electricity side of low hanging fruit, and the 59 OPA CDM staff with a fully-allocated cost of about $10 million a year (is this the plan for the OEB?), and the expenditure of billions of dollars on electricity conservation programs, the gas conservation programs are still out-performing the electricity conservation programs by a comfortable margin.

0.2.32 ***Conclusion.*** SEC submits that the Board should rewrite the Draft DSM Framework and Guidelines to:

(a) Affirm and encourage the gas utilities to continue and even better their position as leaders among North American gas DSM programs. This should be the central theme of the Board's policy.

(b) Support and expand the collaborative approach to DSM program development and evaluation that has been so successful in Ontario. The sole role of Board Staff should be to support the Board members in hearings and consultations on DSM issues, as is the case today.

0.3 ***Summary of Submissions***

0.3.1 This Final Argument contains a detailed analysis of some of the issues arising in this proceeding. The following are some of the main recommendations resulting from that analysis.

0.3.2 ***Term and Mid-Term Review.*** SEC strongly supports the six year term proposed, and the value of a mid-term review.

0.3.3 The Board should assure the utilities that longer term programs started in the first three years can be continued on the same terms in the second three years (i.e. they will be grandfathered), so that the utilities have certainty in program design.

0.3.4 The Board should also establish an expectation that the mid-term review can include consideration of a plan extension beyond 2020, if the evidence so warrants, so that the effect is a rolling multi-year term, rather than a fixed term that is getting shorter each year.

0.3.5 ***Targets.*** Targets should be developed by the utilities in the preparation of their DSM plans, and then considered by the Board.

0.3.6 There is no evidence before the Board that could be used to support an *a priori* target level for Ontario gas utilities.

0.3.7 ***Budgets.*** Budgets are driven by two factors: how much is needed to produce DSM results, and what are the rate impacts to customers. Without any plans before it, the Board cannot establish any level of reasonable budget that considers the first factor. What the Board can do, on the evidence before it, is determine a reasonable level of rate impact based on the status quo.

0.3.8 SEC therefore proposes that the Board establish a preliminary six year budget range for Enbridge of $180 million to $240 million, and a preliminary six year budget range for Union of $175 million to $235 million. This is based on the current budgets, escalated for inflation, plus or minus 15%. The Board has evidence that the current budgets are generating results that are amongst the best in North America, and that ratepayers are generally satisfied with the rate impacts. The 15% comes from the DSMVA, which the Board has already determined is an acceptable level of rate variation for DSM costs.

0.3.9 This is not intended to be a maximum. The Board should encourage the utilities to propose increased budgets, together with new evidence supporting the appropriateness of those budgets in light of rate impacts.

0.3.10 In addition, SEC proposes a new Innovation Fund, limited to funding DSM

programs that are truly new (not just "new to Ontario"). Under this proposal, this would ramp up starting in 2016, eventually adding up to $20 million to the annual budgets for each of Union and Enbridge by 2020.

0.3.11 ***Shareholder Incentives.*** There is no logical or empirical relationship between budgets and shareholder incentives, and the Draft DSM Framework section on this subject is undermined by that incorrect assumption.

0.3.12 The Board has evidence that maximum incentives of $8 million for each of the gas utilities are sufficient to generate stellar results. That level should be the preliminary cap on incentives. The utilities should then be encouraged to propose higher incentives, if their proposed programs increase their degree of difficulty in producing results.

0.3.13 ***Programs.*** SEC urges the Board to make leadership a primary theme of the DSM Framework. Ontario's gas utilities should not be focusing on implementing here what is already being done elsewhere. Instead, they should be focusing on improving on the programs of others, and developing new programs, so that other jurisdictions are looking to Ontario for leading edge programs.

0.3.14 SEC also proposes that the Board allow and encourage multi-year partnerships between utilities and their customers for the implementation of DSM measures. Those partnerships should be designed to promote the conservation first culture, and to maximize flexibility for both the utility and the customer. A particular emphasis should be on partnerships with customers that are, or aspire to be, leaders in energy efficiency.

0.3.15 ***Evaluation, Measurement and Verification.*** SEC rejects the proposed takeover of EM&V by Board Staff. This is a bad idea.

0.3.16 We do propose that the two audit committees be merged, so that one stakeholder committee supervises the audits for both utilities. There is no logical or helpful role for Board Staff in that committee.

0.3.17 SEC proposes two changes to the calculation of adjustment factors:

(a) Free ridership for custom programs should be calculated on an annual basis, relying on a "causation factor" to be determined for each of the sampled projects and audited in the normal course. That causation factor – between 0% and 100% for each project – would then be part of the calculation of the realization rate, and applied to all projects in the normal way.

(b) Spillover, including both participant and non-participant spillover, should be allowed on a program by program basis. If a utility designs a program that intentionally causes spillover, and that spillover can be identified and

measured, then those spillover results should be counted in results, either as part of the main results or as a separate metric, depending on the program.

0.4 ***Proposed Process for Development and Approval of DSM Plans***

0.4.1 SEC makes two specific process proposals for consideration by the Board.

0.4.2 First, while the utilities and the stakeholders have had some discussions about the issues in this consultation, the time frames are tight (due to the requirements of the Directive), and so those discussions have necessarily been limited. We are aware that a number of parties will be making proposals as part of their submissions (including SEC), and some of those proposals are new.

0.4.3 SEC therefore proposes that the Board allow parties to provide commentary on the submissions of others with a second round of submissions, no later than November 5, 2014. The short turn-around will limit the temptation of some parties to simply restate their initial submissions, and instead require everyone to focus on dealing with the submissions of others. The result, however, will likely be that the Board sees broad support for some solutions, and more pointed debate on other issues.

0.4.4 Second, and as the Board points out, the framework and guidelines are a first step, after which the gas utilities have to produce their actual DSM plans.

0.4.5 We believe that, assuming (in compliance with the Directive) the Board issues its Framework and Guidelines by December 31, 2014, the utilities should be expected to file six year DSM plans by April 30, 2015. Because of the truncated time frames, and the likelihood that the DSM plans will not be finally approved before June 30, 2015, we agree with some other parties that the 2015 part of the plans may be a transition year, more similar to 2014 than to 2016-2020.

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1 BACKGROUND, SCOPE AND PURPOSES

1.1 *Introduction*

1.1.1 The first section of the Draft DSM Framework provides useful background, most of which does not require comment.

1.1.2 SEC will therefore limit its comments to two areas: the purposes of DSM, and the value/role of jurisdictional reviews in developing Ontario DSM policies.

1.2 *Purposes of DSM*

1.2.1 The list of purposes found on page 5 represents the long-standing public consensus in Ontario as to the reasons we are willing to spend money on conservation. We have no specific comments on the list, which was essentially agreed by all parties at the working group.

1.2.2 We do, however, have two comments on how the goals should be expressed in the DSM Plans of the gas utilities.

1.2.3 ***Process***. First, SEC believes that it should be expected, in any DSM program, that the alignment of the purposes and goals of the program with the overall purposes and goals of DSM should be stated expressly in the program description. Each new or existing program should contain a section in which the relationship of that program to each of the three overriding goals is specified.

1.2.4 This should not be a matter of paying lip service to the goals. Individual programs have different goals and purposes. Some will be more about bill reductions for ratepayers. Some will be more about deferring capital spending on infrastructure. Some will be more about showing leadership and creating a conservation first culture in Ontario. While all will have elements of all three goals, the program's focus will drive the program's design (and in many cases vice versa as well).

1.2.5 SEC believes that, when utilities design programs, those programs should be more goal-driven than they are today. Requiring a disciplined and formal analysis of program goals will, in our submission, improve program design and improve the balance of the overall portfolio of programs.

1.2.6 ***Emphasis.*** The Draft DSM Framework and Guidelines talk about three goals, but really focus on the third goal, bill reduction. The goal of deferring capital spending on infrastructure is sloughed off as something the utilities should merely "look at". Worse, the goal of promoting a conservation first culture is essentially not mentioned at all. Rather than a focus on leadership and innovation, the current Draft DSM Framework focuses on more of the same, which means a continued

focus on bill reductions to the exclusion of the other goals.

1.2.7 The Minister has been clear that the primary goal of DSM policies should be to promote a conservation first culture in Ontario. This requires that the Board, and gas utilities, show leadership. That doesn't just mean spending more money (although it might). It means seeking to be the best, rather than seeking to follow the crowd. As we have noted earlier, this is the single most critical shortcoming that we see in the Draft DSM Framework.

1.3 ***Jurisdictional Reviews***

1.3.1 The Draft DSM Framework and Guidelines rely heavily on jurisdictional reviews to establish "reasonable" levels of budgets, targets, and incentives. In our submission, this is not a valid method of setting these levels. This fails to recognize the state of the Ontario gas market, and the specific factors that influence Ontario spending and expected results.

1.3.2 Further, we note that the jurisdictional review was done by Concentric, chosen by Board Staff for this work despite the fact they were roundly and justifiably criticized, in the process of developing the last framework, for their lack of expertise and the limited value of their work. While this time the work was limited to review of other jurisdictions, it is clear that the Concentric Report fails to recognize important factors that have to be considered in learning from the experience of other jurisdictions.

1.3.3 In the consultation for the last framework, stakeholders had the opportunity to ask questions of those who did the reports. That allowed us to identify the lack of expertise of those who did the work for Concentric, for example. That opportunity was not provided by Board Staff in this case, so we cannot determine whether those who did the Concentric study were actually DSM experts, or not. If they were the same team as the last time around, they are not experts, and their work is therefore of little value. Most of what they have provided in this Supplemental Report is a summary of publicly available information that we were able to review online in less than two hours.

1.3.4 Our main concern with jurisdictional reviews, however, is not with the identity of the consultants. We are concerned that Board Staff appear to believe that, by getting raw data from other jurisdictions, we can determine what is appropriate in Ontario. That is incorrect.

1.3.5 Ontario, and the Board, can learn from other jurisdictions. That is clear. We can see programs they have developed that have not been considered here. We can see how they addressed policy and technical issues, and understand different perspectives about those issues. We can see the influences on manufacturers and service providers arising out of programs in other places. We can even identify

best practices (so that Ontario utilities can then improve upon them).

1.3.6 What we cannot, and should not, do, is take statistical data from other jurisdictions and apply it blindly to Ontario. If US jurisdictions are spending $3.67 per capita on gas DSM[9], that doesn't mean that Ontario, with a population of 13.4 million, should spend $49.2 million. We are already spending much more than that, and we should do better. Similarly, if the average savings in the US is 0.24% of retail sales[10], that does not mean that Ontario's target savings should be 41.2 million annual cubic meters of gas. Our current performance is almost five times that, and again we can do better.

1.3.7 The point here is that statistics from other jurisdictions are rarely helpful, particularly to a large population base that has generally been in the forefront of gas DSM. Statistics allow you to stay with the pack. Qualitative learnings from other jurisdictions allow you to maintain and increase your position, even move to the head of the pack.

1.3.8 Therefore, SEC found the Concentric Report, with their many comparisons that they admit are not reliable because of data issues, and with their many comparisons with jurisdictions that are clearly not relevant (California?!), and their unweighted averages[11], to be singularly unhelpful as a matter of substance. Forget their lack of expertise. They didn't really help much.

1.3.9 At best, all the Board can conclude from the Concentric Report is that Ontario gas utilities are, and have been for some time, among the top performers in North America[12].

1.3.10 The other thing that you can conclude from the report is that there is no statistically valid correlation between spending levels and results. Those who spend more don't have predictably better results. Other factors are sufficiently important that there is no direct correlation.

1.3.11 SEC notes that undue reliance on statistics from other jurisdictions is just one more example of Board Staff's failure to grasp the full complexities of the issues. Setting

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[9] 2012 result per ACEEE State Energy Database.
[10] Ibid.
[11] Just as one example, consider their Table 2 on page 5. Their conclusion that average savings of the top performing states, as a percentage of retail sales, was 0.71% of retail sales, is based on a simple average, heavily influenced by smaller states. The weighted average – and this is of the top performing states – is 0.59%. Ontario is already at almost twice that level, 1.15%. None of this information is useful, because the data is not made properly comparable by adjusting for material independent variables and data quality issues.
[12] Sixth in spending, third in results, with no jurisdiction ahead of Ontario on both measures. That is all the questionable analysis by Concentric really tells us. Of course, as noted above all of these metrics are suspect. SEC believes that proper benchmarking should in fact be done, likely on a sector by sector basis, so that Ontario's gas utilities can identify where their efforts could be improved. This would involve scrubbing the data, and identifying key variables, so that the comparisons were meaningful and therefore useful.

budgets based on a pre-determined percentage of revenues, or targets based on a percentage of retail sales, or incentives based on a percentage of budgets, is demonstrably incorrect. Budgets, targets and incentives do not respond to such a simplistic approach, and SEC urges the Board to use caution in considering the data from other jurisdictions in this way.

2 TERM AND REVIEWS

2.1 *Term*

2.1.1 SEC has been supporting longer term planning for DSM for at least ten years, so the proposed six year term is good news. We agree.

2.1.2 We note that the potential extension of the term should also be considered. See below.

2.2 *Mid-Term Review*

2.2.1 The draft framework proposes a mid-term review after three years. This is a very good idea. We do, however, have two comments.

2.2.2 ***Certainty.*** The primary value in a longer term planning horizon is that the utilities can engage in multi-year programs that require patience to get to valuable results. We have, in fact, suggested some specific programs in Section 7.0 of these Submissions that rely entirely on that approach to program design.

2.2.3 The danger of a mid-term review is that it could change the rules, and thus change the cost/benefit analysis for those longer term programs. In the most extreme case, the utilities will see their program as a three-year program, because that is the longest period over which they are certain the rules will not change.

2.2.4 In our submission, the Board should make very clear that, for programs that have a success horizon longer than the period until the mid-term review, any changes to the framework or the guidelines will grandfather those programs. The utilities should understand that they will be allowed to continue with longer term programs under the rules in place when they were created, unaffected by changes in the rules going forward. This should include the budgets available for those programs, the targets set and incentives to be earned, and the EM&V rules applicable to the results.

2.2.5 ***Rolling Term.*** What the Draft DSM Framework and Guidelines do not consider is the possibility that the mid-term review could result in an extension of the term of the plans, so that the remaining three years become, in effect, a new six year planning horizon.

2.2.6 This is one of the problems with a fixed term. Even if it is a multi-year term, it becomes more short term as the time wears on. Eventually (i.e., in year 5), it becomes a one-year plan, or in some cases a series of one-year plans until the next multi-year plan is approved.

2.2.7 A possible solution is to invite the utilities, in their mid-term applications for review, to propose terms of an extension of their plans. The result could be, for example, that in a 2018 review, the Board could approve revised plan terms, but also extend the plan from 2020 to 2023.

2.2.8 In our submission, this should not be mandatory, but the DSM Framework should expressly contemplate that the mid-term review may, at the instance of any party or the Board, include consideration of an extension of the plan, and the terms under which that could take place.

3 GUIDING PRINCIPLES

3.1 *General*

3.1.1 The Draft DSM Framework, at pp. 8-9, sets out certain guiding principles for gas DSM. These principles were discussed extensively by the working group, and SEC is in general agreement. While one could quibble with the precise wording of some of them[13], the thrust of the principles has a wide consensus.

3.1.2 SEC does have specific comments on Principle #5 ("high customer participation"), which appears to suggest that tightly targeted programs should not be allowed. For example, later in these Submissions we will propose programs specifically aimed at highly efficient customers (such as some school boards). Those programs should not be rejected, or given a lower priority, because the raw numbers are lower than mass market or other broad programs.

3.1.3 SEC therefore proposes that Principle #5 should either be reworded to exempt tightly targeted programs, or interpreted to mean high participation within the target customer group, however narrow that group may be.

[13] E.g. In #4, is it generally true that the utilities should be "allowed to recover spending associated with the administration… of DSM programs"? Does this mean some portion of executive costs should be allocated to these programs? Should costs that are currently included in rates but not allocated to DSM be re-allocated and become incremental after the fact? None of those is likely the intention, but the wording of the gloss on the principle, over and above what the working group agreed, is perhaps unfortunate.

4 TARGETS

4.1 *Introduction*

4.1.1 SEC's supports targets proposed by the utilities in collaboration with their stakeholders, and based on a solid evidentiary foundation.

4.1.2 In the sections below, we comment on some aspects of the problem of setting DSM targets.

4.2 *Sources of Information to Set Targets*

4.2.1 Here is a business school problem.

4.2.2 Alpha Widgets is an Ontario company in the business of manufacturing and selling high-end widgets to the automotive industry. Alpha's widgets are made of tempered steel, and are rated to last more than ten years in normal use. They sell for $10,000 each, with a 30% gross margin.

4.2.3 The other two large widget makers, Beta and Gamma, have similar overall sales levels. Beta covers the same geographic areas, but sells lower quality widgets made of weaker metals, and sometimes plastic. They last 3-5 years. Average sale price is about $4,000, with a 10% gross margin.

4.2.4 Gamma is based in California, and sells a similar quality to Alpha. However, their customer base is more competitive, so they have to sell at $9,000 each, with a 20% gross margin.

4.2.5 John Jones has just been hired as the new top salesperson at Alpha. His manager says that the top salesperson at Beta sells 40 units a month, and the top salesperson at Gamma sells 32 units a month, so John should accept a quota of the average, 36 units a month. John thinks that is stupid, as the sales levels are not comparable. He says that the appropriate way to set his quota is to look at the product he is selling, the price at which he is selling it, and the market into which he is selling it. Those three factors drive the reasonable level of performance that should be expected of him.

4.2.6 Any first year B-school student knows that John's approach is correct, and the manager's proposal is not.

4.2.7 DSM targets are like sales quotas. They establish a level of expected performance, and so should be based on the factors that drive performance. Those factors, in the case of DSM, will be the nature of the program, the resources available to sell it (e.g. the incentive levels), and the nature of the target market.

4.2.8 In our submission, the starting point for setting targets for any DSM program is the potential in the market place, i.e. the number of "buyers" out there. This then involves the economics and thrust of the program (e.g. longer payback means more market resistance), and the level of incentives or other benefits being provided to motivate customers to participate.

4.2.9 Contrast two programs. Program #1 involves handing out free faucet aerators to passers-by on the street. Program #2 involves negotiating a long-term efficiency commitment with a major customer to implement at least 80% of measures with a ten year payback or less. The first program has a large market (most people have at least one faucet without an aerator), and a high incentive cost (the full price of the aerator plus the cost of delivery to the customer on the street). The economics to the customer are favourable, however, so "selling" a lot of aerators is relatively easy. Conversely, the second program has a smaller market (large customers interested in making a serious, multi-year efficiency commitment) and likely a smaller incentive cost (cash payment plus administrative costs of the partnership). It does have the significant benefit that it promotes the conservation first culture, and it may drive intentional spillover, so it is worthwhile to do it even though it is much more difficult than Program #1.

4.2.10 No-one should suggest that targets (or budgets, or shareholder incentives) for these two programs should be set on the same basis. The difference in the degree of difficulty, and the difference in the impacts (both qualitative and quantitative) require that the targets be set individually.

4.2.11 SEC believes that utility-specific potential studies are the first step in developing DSM targets. After that, and as noted below, target-setting is an iterative process driven by the measures that can be delivered, the resources available to do so, the willingness of the customers to adopt those measures.

4.2.12 It therefore goes without saying that pre-determined targets – cubic meters equal to 1% of retail sales, or TRC equal to five times budget, or results 10% better than last year – are inherently flawed, and should be rejected. All of those things may factor into assessment of the reasonableness of proposed targets, but in our submission targets can only be set properly as part of the budget, incentive, and program design process.

4.3 ***What is the Target Metric?***

4.3.1 The Draft DSM Framework and Guidelines proceed on the assumption that the dominant metric for measuring targets should be cumulative lifetime cubic meters. This may well be the case, but in our submission the utilities should be encouraged to propose other metrics that will tie directly into the success of specific programs. Those metrics could include TRC saved, reductions in normalized average use per

customer, peak load reductions, improvements in average residential R-values, number of houses sold with an efficiency rating, or other such items.

4.3.2 In SEC's submission, each DSM program should have attached to it one or more success metrics. For many programs the metric will be the same, e.g. cubic meters. However, much as we proposed earlier that programs be required to stipulate the DSM goals being addressed, in our view the program should also be required to stipulate the appropriate metrics to measure achievement of that goal.

4.3.3 For example, suppose a utility offers a remote controller that adjusts the temperature of water in the water heater downward on the coldest days of the year (thus shaving peak[14]). While this might reduce overall cubic meters used, the primary focus is to reduce peak load on the system on the coldest days. The appropriate measure will likely not be cumulative lifetime cubic meters.

4.3.4 Similarly, consider the home efficiency rating program. That program will undoubtedly save some cubic meters, but the primary focus is to promote the conservation first culture in Ontario. It may be that both should be measured, but just measuring cubic meters would provide insufficient recognition of the importance of the conservation first message.

4.3.5 This works the other way as well. For certain measures that are targeting cubic meters, it still may be better to measure overall impacts. For example, if a program is incenting improvements to the building envelope, it may be more appropriate to measure the success of the program by a weather normalized bill analysis before and after the measures are installed. This could particularly be true in low income programs, where the cost of the retrofit program is high, and results could be heavily influenced by unexpected (or expected) behavioural changes. If a utility improves a thousand low income dwellings, with measured and normalized gas use before and after, not only are the annual savings more precisely measured, but the results can be used in the marketing of the program in future years ("on average, this program is saving your neighbours $37 a month on their gas bill").

4.3.6 The point is not to reject the CCM metric for DSM programs. SEC accepts that it will be major feature in all gas DSM over the next plan period. The point, though, is that CCM as a measure of success largely applies to only one of the three main goals of DSM programs (and is sometimes not even the best for that). If the Board and the gas utilities are to address the other two important goals, then metrics have to be developed that more directly measure success in achieving those goals.

4.4 ***Budgets, Programs, Targets and Incentives***

4.4.1 SEC believes that targets are best set in an iterative process that starts with two

[14] This is, of course, an entirely hypothetical product.

inputs: a market potential study, and a preliminary decision on how much to spend. Once those two steps are taken, it is possible for a utility to design programs with a view to tapping the market potential, achieving the goals of the DSM framework, and still spending the available budget wisely.

4.4.2 With a preliminary suite of programs and a provisional budget to deliver them, it is then possible to establish on a preliminary basis the reasonable levels of achievement in order to earn incentives. Those targets include determining both the metrics used to measure success, as discussed above, and levels of those metrics that would denote success worthy of incentives.

4.4.3 Once provisional programs, budgets and targets are determined, it is then appropriate to assess sensitivity of those figures to changes, whether in budgets, targets, program focus, or otherwise. For example, the utility should know how their programs and targets should change if their budget is increased or decreased by, say, 10%. Similarly, they should know how much more budget they need to achieve a 10% (or 20%, or 50%) greater target. They should also identify how many short-term cubic meters they are giving up by spending dollars on conservation first culture for the long term, rather than on immediate wins. By determining sensitivities, the utilities, and the Board in considering the plans, are in a position to optimize the plans to achieve the maximum public benefit in the most cost-effective manner.

4.4.4 SEC therefore believes that the only sensible way to establish targets is for the utilities to develop programs, budgets and targets together, in close collaboration with their stakeholders (who are also both beneficiaries and financiers of the programs).

4.5 ***Questions Posed by the Board***

4.5.1 The Board has posed five questions in this area.

4.5.2 ***"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)?"***

4.5.3 As noted earlier, SEC believes that

(a) *a priori* levels of savings are inherently the wrong approach to establishing targets for good DSM programs (and incidentally place inappropriate reliance on inapplicable results from other jurisdictions); and

(b) any target that is limited to measuring cubic meters fails to give proper weight to the goals of reducing capital spending on infrastructure, and promoting a

conservation first culture in Ontario.

4.5.4 Further, we note that the 5% target appears to be annual cubic meters, which would emphasize short-term savings (easier to achieve) over long-term savings, which have much greater value. This is contrary to both the Board's own policies, and the Directive.

4.5.5 Finally, we also note that the figure of 5% for a six year plan, based on the lower sales figures for the 2011-2013 years, works out to be significantly less achievement by 2020 than the utilities already achieved in each of 2012 and 2013, and likely 2014 as well.

4.5.6 Therefore, SEC believes that the proposed 5% target is inappropriate.

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

4.5.8 SEC believes that Option 1, relying on collaboration between utilities and stakeholders, and using the methodology we have outlined above, is the appropriate way to set targets.

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

4.5.10 The information SEC believes is appropriate is outlined in Sections 4.2 to 4.4 above.

4.5.11 ***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?***

4.5.12 No, for the reasons set forth above. Long term targets are no different from short term targets. They are driven by market potential, budgets, and program design, all within the context of the plan's overriding goals.

4.5.13 Someone has to provide an evidentiary foundation to the Board. Who would provide the evidence on which the Board would base the provisional targets? How would that evidence be tested and validated? Option #2 appears to assume that the Board can establish provisional targets without a firm evidentiary base, and without a transparent process for review of the evidence.

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

4.5.15 When the overriding goal is to achieve all cost-effective DSM, the long term targets must necessarily be the result of good planning and effective use of available budgets in the context of the benefits being sought.

4.5.16 Therefore, SEC believes that the utilities should be responsible for proposing their long-term targets to the Board in their DSM plans, having maximized the value they have available to them from collaboration with their stakeholders.

5 BUDGETS

5.1 *Introduction*

5.1.1 Unlike targets, which are essentially entirely about DSM, budgets are really only partly about DSM. They are actually more about spending ratepayer money, which is fundamentally a rate-setting exercise. In this respect, it is no different from spending money on any other utility initiative, and is the type of issue that is directly within the core expertise of the Board.

5.1.2 Therefore, SEC believes that there is some merit in the Board identifying, on a provisional basis, an acceptable budget range based on the rate impact side of the equation, with the caution that even setting such a range should still be based on evidence. The fact that other jurisdictions are spending X dollars, or the fact that the electricity conservation budget in Ontario is Y dollars, is not relevant evidence in that respect.

5.1.3 Below we provide comments on some aspects of the budget issue.

5.2 *Sources of Information to Establish Budgets*

5.2.1 DSM budgets are based on two categories of information: ability to achieve DSM goals through spending ratepayer money, and impacts on ratepayers of increased rates.

5.2.2 The first category of information is tied up in the development of DSM plans. It is part of a cost/benefit analysis. Thus, it is difficult to do on a preliminary basis without information on the benefit side of the equation.

5.2.3 In this respect, looking at the spending levels in other jurisdictions tells the Board nothing about what Ontario gas utilities can achieve with given budget levels. Even the most cursory look at the data from other jurisdictions shows that DSM program spending is not predictive of success in DSM program delivery. Board Staff appear to believe that the relationship between spending and results is intuitive. The data does not, in fact, support that conclusion. Unless there is additional data to support it, in our submission the Board would be incorrect in establishing budgets based on spending levels in other jurisdictions.

5.2.4 Similarly, looking at spending levels for electricity CDM is not helpful. Those programs are being delivered by entities with far less experience, and are centrally developed and managed. Further, they tap a market that is increasingly urgent, and has much more low hanging fruit still available.

5.2.5 Also important is the fact that the budgets for CDM have not been set based on any

publicly accessible evidentiary record. For the Board to make a determination that gas DSM budgets should be set by reference to electricity CDM budgets, the Board would be obligated to make a determination that the electricity CDM budgets are just and reasonable. The Board has no evidentiary basis for that.

5.2.6 The second category of information is easier, because the Board has a rate impact history. What the Board can determine from existing information is that the current budget levels are producing very good results in Ontario, and produce rate impacts that are acceptable to the vast majority of customers. Therefore, from the point of view of just and reasonable rates, the status quo has a firm evidentiary foundation.

5.2.7 The Board can also go a step further. The current framework allows spending in excess of the budget level, up to 15%, to pursue savings in excess of target. While the DSMVA is limited by target achievement, the Board has already made a determination that a 15% budget increase is an acceptable rate impact.

5.2.8 SEC therefore believes that, on the existing information available to the Board, the Board should establish a six year budget range of $180 million to $240 million for Enbridge, and $175 million to $235 million for Union, or in aggregate $355 to $475 million over six years[15].

5.2.9 SEC has three additional comments on these proposed preliminary budget ranges.

5.2.10 First, the Draft DSM Framework contemplates that the budget levels for Union and Enbridge diverge, reversing a trend of convergence that was deliberately established in 2006, and continued in the most recent framework. It is not clear to SEC that Enbridge should have larger DSM budgets than Union. However, by providing ranges, the Board would be inviting the utilities to design their own DSM plans to produce maximum benefits. Those plans could end up having different budgets, or the same, but those final budgets would be driven by what each utility seeks to achieve, not by some initial bias for or against equality.

5.2.11 Second, SEC is proposing that the Board's range be for the entire six year period, rather than an annual budget. This will allow the utilities to determine the most efficient ramp up of programs within the six years. One utility may want to set a $38 million budget, and have it flat for six years. The other may want to start at the current levels, but increase at 4-5% per year. Either may instead propose budget levels that reflect the timing of specific new program initiatives.

5.2.12 Third, SEC is not proposing that the range be an implied "maximum", and in our view the Board should make very clear that it is not a maximum. We are seeking to disaggregate the budget issue into its two logical components. This allows the Board to impose regulatory discipline – including decision-making based on

[15] Current budgets, plus inflation over six years, +/- 15%.

evidence – at both the preliminary and final stages:

(a) ***Preliminary Budget Ranges.*** Without further evidence, the Board can reasonably conclude that current spending levels, plus or minus 15%, can produce good results and be acceptable to ratepayers. That produces the preliminary range.

(b) ***Final Budgets.*** The actual budgets should then be based on the combination of programs and targets that the utilities include in their DSM plans. Those budgets can be within or outside of the range, depending on the DSM Plans. If they are within the range, the Board already knows that the rate impacts are acceptable. If they are outside of the range, then the Board will have to assess, based on new evidence from the utilities, whether the additional rate impacts are justified by the additional benefits to be achieved.

5.3 *Innovation Fund*

5.3.1 In addition to the basic budget, SEC proposes that the utilities be invited to propose, each year for the following year, an additional budget, starting with 2016, called the Innovation Fund. Each utility would be entitled to propose programs that are completely new, i.e. not "new to Ontario", but groundbreaking approaches to gas DSM. The maximum for 2016 would be $5 million incremental budget. For each subsequent year, the maximum would be the amount actually spent in the previous year on qualifying innovation Fund programs, plus a further $5 million (i.e. "use it or lose it", which encourages the utilities to be diligent in finding innovative programs, and rewards them with increasing budgets to do so).

5.3.2 SEC believes that the Board should not, at this point, stipulate anything more than that about the Innovation Fund. The important step is to signal to the utilities that the Board expects them to continue and expand their leadership position, and therefore is looking for them to be creative in proposing innovative new programs, including associated budgets, targets, and shareholder incentives.

5.3.3 Our hope would, in fact, be that the utilities will establish ongoing stakeholder consultations whose primary purpose is to generate new program opportunities.

5.4 *Willingness to Pay vs. Obligation to Pay – Opting Out*

5.4.1 The underlying justification for including DSM costs in rates is that, while customer rates go up, their bills will go down, so in the end they benefit. This depends, however, on the utilities offering programs for all customers. If a customer pays, but there are no utility programs available to them, then they are paying an additional, involuntary cost with no concomitant benefit. It is just a mandatory subsidy of other customers. This is not generally acceptable in utility ratemaking.

5.4.2 The basic solution to this problem is to ensure that utility programs are available for all customers. The utilities generally seek to do this in their DSM plans, and should be encouraged to continue and improve in this area. This is an issue of program design.

5.4.3 There is a subset of this problem that is of specific concern to school boards. There is a lack of utility programs for some customers because those customers are energy efficiency leaders, and the incremental savings available to them are less than for other customers. The gas utilities will generally go where they are incented, and in the case of highly efficient customers, there is less incentive available to the utilities for programs to save efficient customers even more.

5.4.4 In 2013, school boards in the Enbridge area paid $880,000 in rates for DSM programs, about $340 per school. The total program incentives paid for gas DSM programs in schools were $113,000. While the results for Union are not as easy to discern from public documents, they are likely similar. In total, we estimate that Ontario schools pay $1.7 million per year for DSM in rates, and get less than $250,000 in benefits.

5.4.5 This is not the result of school boards being laggards. The opposite is more often true. School boards are among a group of customers that, for various reasons, are early adopters of energy efficiency measures. In part this is because they have a long planning horizon; in part it is because there have been government programs directed at school efficiency measures; and, in part it is because many school boards have access to in-house expertise.

5.4.6 In the context of the upcoming framework, the disparity between cost and benefits becomes a significant concern for school boards. Over the next six year framework, school boards in the province will pay more than $12 million in their rates for gas DSM programs. Current utility programs, however, will pay them $1.5 million in aggregate incentives. The rest is simply a net cost. Further, if the budgets are doubled, as some propose, that is an additional $10-12 million cost that school boards would bear for minimal benefit.

5.4.7 In these circumstances, school boards don't see this in the context of cost/benefit analysis. This is simply a net cost without any benefit, in which $10 million (at current DSM levels) or perhaps as much as $20 million (at the levels being proposed by some) is to be spent by school boards, not on educating children, and not even on improving the energy efficiency of their buildings. That money would be forcibly "spent" by the school boards to subsidize others to implement energy efficiency.

5.4.8 If school boards have efficiency measures they can implement, and utility programs that will assist in implementing those measures, then failure to take advantage of

those programs is their own fault. However, if school boards and other customers are being asked to spend this much money, but there are no programs because they are already too efficient, this is unfair and contrary to the goal of achieving a conservation first culture in Ontario.

5.4.9 Later in these submissions, SEC proposes that the utilities be expected to develop programs for efficiency leaders, and we have specific suggestions in that area. This should apply, not just to school boards, but to all customers that have already implemented broad energy efficiency initiatives.

5.4.10 The other side of that is that customers that have achieved high efficiency levels, and do not have utility programs reasonably available to them to do more, should be allowed to opt out of the cost of utility DSM programs completely. If they can't benefit, they should not be required to pay.

5.4.11 Our proposal is simple. Any customer, in any rate class (including residential, commercial and industrial customers) should be able to provide evidence to the gas utility prior to any rate year that they have achieved a high level of energy efficiency already. We propose that the level be the top quartile in their particular sector (schools, for example, or hospitals, or single family dwellings, or fast food restaurants). The utility would then seek to reach agreement with the customer to participate in programs (likely some type of custom program) to improve efficiency even further. If such an agreement cannot be reached, the customer should be entitled to receive a credit on their bill equal to their total DSM cost in rates. This would continue as long as the customer continues to qualify, and the utility and the customer do not reach agreement on program participation.

5.4.12 The utility's DSM budget in each year would effectively be reduced by the credit to these qualifying customers. Put another way, the credit would be a spending line in the budget. Utilities would be able to avoid paying the credit by designing and delivering programs that work for customers that are efficiency leaders.

5.4.13 This opt-out proposal is significantly different from opt-outs that have been proposed by others in the past, in at least three ways:

(a) It would apply only to customers that have already achieved superior levels of energy efficiency in their operations.

(b) It would apply to all customer classes.

(c) Qualification for the opt-out would depend on superior efficiency relative to the customer's specific sector, rather than the general customer base. A school board, for example, would qualify not because school boards are generally more efficient than retailers, for example, but because that school board is a superior performer compared to other school boards.

5.4.14 We note that, in addition to the obvious fairness aspect of this proposal, it also addresses the goal of creating a conservation first culture. Customers would be rewarded with a bill credit for their achievement of high energy efficiency levels, but would be required to maintain their leadership position to keep the credit in subsequent years. On the other side, utilities would be motivated to address market leaders, who have adopted a conservation first culture, because if they don't provide appropriate programs, their budget is effectively cut.

5.5 ***Options to Establish Budgets***

5.5.1 The Board has proposed two options for establishing budgets. In both cases, the final budget is established in a hearing based on evidence before the Board. In Option 2, there is a preliminary step where the Board sets a maximum level. In Option 1, there is no preliminary step.

5.5.2 In Section 5.2, SEC proposes an option that is a variation of Option 2. Instead of setting a maximum, the Board would set a preliminary range, based on existing evidence on which the Board can rely. The gas utilities would then be invited to develop budgets, either inside or outside the range, with the understanding that budgets in excess of the range would require additional evidence to support the rate impacts in light of the achievable benefits.

5.6 ***Questions Posed by the Board***

5.6.1 SEC therefore answers the questions posed by the Board as follows:

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

5.6.3 No. The Board should provide a six-year budget range that is reasonable in the context of rate impacts and past utility performance. The gas utilities should then be asked to develop DSM plans that are either within that range, or are outside of the range but based on evidence that spending outside of the range is preferable to achieve the goals of the DSM framework. The gas utilities should also be asked to propose the appropriate spending pattern, based on their programs and their capacity to ramp up.

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

5.6.5 The figure of 6% has no basis in Ontario experience, and is almost double the current cost to ratepayers[16]. Indeed, the range of spending levels seen in the Board

[16] The proposal appears to be total spending, including incentives, of just under $750 million over six years: Draft

Staff analysis[17] is from 3.22% to 14.23% of distribution revenues, so the average is not in any way indicative of a consensus or optimum level. The market has not "revealed" the appropriate spending level. The state with the best overall performance is in fact Vermont, with spending at 4.83% of gas distribution revenues. If reference to other jurisdictions in fact makes any sense at all, presumably the top performer is the best referent, so Ontario should adopt 4.83%.

5.6.6 Of course, all of this is irrelevant. The Vermont-driven figure, about $84 million per year (4.83% of distribution revenues) is no more sensible than a Massachusetts-driven figure, about $247 million per year (14.23% of distribution revenues), or a Connecticut-driven figure, about $56 million per year (3.22% of distribution revenues). None are relevant to Ontario, and none provide any credible evidence on which the Board could establish any budget levels[18].

5.6.7 SEC believes that the Board's initial annual range should be based on the evidence the Board currently has before it, i.e. the existing budget levels, plus inflation, plus or minus 15%. For Enbridge, this would be $28.4 million to $38.5 million. This translates into a six year budget of $180 million to $240 million. For Union, the range would be $27.8 million to $37.8 million annually, which translates into a six year budget of about $175 million to $235 million. In aggregate, Ontario ratepayers would be spending $355 million to $475 million on DSM in the framework period, which when incentives are added would almost certainly total more than half a billion dollars.

5.6.8 Without evidence as to programs and potential program impacts, this is as far as the Board can go based on rate analysis alone. If the utilities believe they can spend outside this range, they can and should propose additional spending, and provide evidence showing that the benefits will outweigh the additional costs to ratepayers.

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

5.6.10 See Section 5.2, above.

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

DSM Framework, p. 22. This could well be a reasonable amount, but the Board has no evidence whatsoever on which to reach such a conclusion, and in our submission is prohibited from approving $750 million of charges to ratepayers without evidence.

[17] Table 3, at page 19 of the Draft DSM Framework.

[18] No more than New York, excluded from the list, which spent more than 8% of distribution revenues, $175 million, to achieve results approximately equal to those achieved by the Ontario gas utilities, spending roughly a third as much - $61 million.

5.6.12 No. Ultimately budget-setting is iterative with target-setting and program design, and should be driven by the proposals of the utilities. Prior guidance from the Board is solely for the purpose of assisting that process.

6 SHAREHOLDER INCENTIVES

6.1 *Introduction*

6.1.1 The Draft DSM Framework proceeds from the premise that DSM is a "voluntary business function" by the gas utilities. Whether or not this is technically correct could be debated, but it is clear that the gas utilities are obligated to develop and deliver DSM programs. Government policy expressly requires that they do so, their regulator expects it, and their customers most certainly expect it.

6.1.2 That having been said, it is still important, in SEC's view, that the gas utilities have the ability to earn financial incentives based on their success in delivering DSM programs.

6.1.3 In this section, SEC will provide some comments on the Board's proposals with respect to DSM incentives for Union and Enbridge.

6.2 *How to Establish Optimum Incentive Level*

6.2.1 The starting point is the assumption in the Draft DSM Framework and Guidelines that there is some logical relationship between DSM budgets and incentives. The basis appears to be that the incentive percentage equates to a "return" on the budgeted spending[19].

6.2.2 This is simply incorrect, on a number of levels. First, return is the profit earned from a capital investment, but of course there is no investment by the gas utilities in DSM. The costs of the programs are essentially all annual costs, and are borne by the ratepayers as pass-throughs. If you want to calculate "return" to the utilities, their return on DSM is infinite, whether the incentive is $1 or $10 million[20].

6.2.3 Second, if this is thought of in terms of margin, as opposed to return in the classic sense, margin is the difference between the sale price of something, and its cost. There is no margin in this case. It is more like the situation of a commission salesperson, whose commission is neither margin nor return.

6.2.4 Third, and most important, "return" is an annual figure over a period of time, often – in the case of utilities – many years. A one-time payment for current year success, which does not carry on into the future, is not in any way like return.

6.2.5 The truly frustrating thing about this is that, during the working group meetings, this suggestion that incentives were somehow like "return" was proposed by Board

[19] See, e.g. p. 25, where $10.5 million of incentives is called the return on the DSM budgets.
[20] Technically, it is an irrational number, since the divisor in the calculation is zero.

Staff, and many parties joined in explaining to them clearly why that is not the case. In fact, the discussion went on to consider how the utilities' normal return-driven business model (profit is based on rate base) is fundamentally different from the DSM business model, and how difficult it would be to restructure DSM to produce long-term returns comparable to capital investments.

6.2.6 Notwithstanding this history, the Draft DSM Framework continues to assume that shareholder incentives are "return" on DSM budgets, and therefore should be assessed as reasonable relative to those DSM budgets. The entire discussion assumes that incorrect relationship.

6.2.7 The easiest way to demonstrate that incentive levels and budget levels are not linked is to ask this question: If Utility A achieves 100 million cubic meters of success spending $30 million, and Utility B achieves 100 million cubic meters of success, in exactly the same programs, and from exactly the same mix of customers, but only spending $20 million, should Utility A get an incentive 50% higher than Utility B? Clearly not. In fact, any differential would likely favour Utility B, not Utility A.

6.2.8 In any business situation, incentives – in the sense of commissions or bonuses, as these are – are driven by three primary factors: level of success, difficulty in achieving that success, and other incentives influencing the person being incented.

6.2.9 The first factor, level of success, is accomplished by tying whatever the incentive amount is to results, as with most commissions, bonuses, and other performance-based payments. This is not controversial, and the Board already has an incentive pattern that provides an incentive starting slightly below target, around 40% earned at target, and the remaining incentive earned at something above target. This is working.

6.2.10 In this respect, we note an anomaly in the current framework, in which performance above the maximums in some metrics can make up for low performance in other metrics. This is not appropriate, and we agree with other parties who will be suggesting adjustments to the incentive calculations that will remove that perverse incentive.

6.2.11 The second factor, degree of difficulty, is achieved by the use of scorecards that stipulate the weighting of particular targets, so that more difficult targets can get higher weighting and therefore relatively higher incentives.

6.2.12 In keeping with one of the main themes of these Submissions – achieving more of the "hard stuff" – SEC believes that the weighting of results, including cubic meter results, for more difficult programs should be higher to recognize the increased effort required to achieve those results.

6.2.13 The third factor – other influences - is sometimes the most challenging of the three. This can be rephrased as "How much is enough?", or "How much will it take to get senior management commitment to the plan?"

6.2.14 There is no magic formula here, and no way that this figure can somehow be discerned from the budget levels. For a large gas utility, a $100,000 incentive is not going to be enough to get their attention, and that will be true whether the budget the ratepayers provide is $1 million or $30 million.

6.2.15 The Board is, however, in the happy position that it is not coming at this afresh. The Board has twenty years of experience with gas DSM programs, and those programs have had various shareholder incentive levels over time, from zero to more than $10 million per utility. The current incentive levels were developed, in effect, through years of trial and error.

6.2.16 What the Board knows as a fact is that both Ontario gas utilities can and will produce stellar results with an incentive level of $8 million per year, because that is what is happening today. More does not appear to be necessary, but equally there is no evidence to suggest that those same results will be achieved with a greatly reduced shareholder incentive.

6.2.17 SEC therefore proposes that the Board set, on a preliminary basis, the maximum incentive level at $8 million for each utility, with the understanding that the utilities in their DSM plans can propose more challenging programs, goals, and targets, and seek a larger incentive consistent with that higher level of difficulty.

6.2.18 We note in passing that, in the past, the gas utilities have proposed that, as their budgets increase, their incentive level should as well. We have noted earlier why budgets and incentives are not linked. Similarly, budgets are not a proxy for level of difficulty or even level of effort. In our submission, while it is understandable for the gas utilities to seek higher profits for this activity (why not ask?), it is not necessary to increase the profit levels to get good results. The evidence on that is pretty clear.

6.3 ***Pay-for Performance Programs***

6.3.1 SEC has long supported piloting programs in which utilities put their own money at risk to procure savings, and make a profit based on being able to procure those savings for less than their "retail" value. We therefore strongly support the proposal to encourage the utilities to try out programs of that type.

6.3.2 We do note that the risk of such programs is cream-skimming, in which utilities maximize their margin in these programs by getting the easiest savings, and ignoring the more difficult stuff. If the utilities propose such programs, the Board will have to be careful to ensure that, in the program design, this risk is avoided.

6.4 *Cost Efficiency Incentive*

6.4.1 The proposal to allow utilities that have achieved their targets at a cost lower than the expected budget to be able to roll over their unspent budget to the next year is, in our view, one of the good ideas arising out of the working group process.

6.4.2 We note that, assuming the Board implements a six year budget cycle, as it has proposed and SEC supports, Enbridge and Union would then be in a position to set their annual budgets in the plan based on their expected activities. Providing a rollover of unspent funds in these circumstances allows the utilities more flexibility in setting their annual budgets in advance, knowing that they can self-adjust in certain circumstances.

6.5 *Questions Posed by the Board*

6.5.1 SEC would therefore answer the Board's questions as follows:

6.5.2 ***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?***

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

6.5.4 The answer to the first two questions is the same. There is no inherent relationship between budgets and incentive levels. The assumption that there is, as set out in the Draft DSM Framework, is based on a faulty understanding of the business model applicable to DSM programs, relative to other activities of the gas utilities.

6.5.5 ***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.***

6.5.6 The factors that should be taken into account in setting the shareholder incentive are set out in para. 6.2.8 above, and explained in the paragraphs that then follow.

6.5.7 The overall level of the shareholder incentive should be based on how much will actually motivate the utility to deliver outstanding results. The Board has developed knowledge of that level, by trial and error, over many years of supervising gas DSM programs. That number appears to be $8 million maximum per year for each utility. The utilities should be free to propose programs that have a higher level of difficulty, and also higher incentives, based on additional evidence to that effect.

6.5.8 ***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.***

6.5.9 SEC agrees with the cost-efficiency incentive proposal.

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

6.5.11 NA.

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

6.5.13 DSM structured as procurement, with a variable margin based on cost control, is an approach worth pursuing in Ontario, particularly for measures that are straightforward and easier to achieve. The risk is that it will promote cream-skimming, which should be managed through sound program design.

7 PROGRAMS AND PROGRAM TYPES

7.1 *Introduction*

7.1.1 SEC believes that the best way to handle programs and program design is to start with proposals from the utilities. The Board's guidance at the outset is, at a very high level, valuable, but at the level of specific details is premature.

7.1.2 We have comments, at a high level, on four issues relating to programs and program types.

7.2 *Overall Theme of Leadership*

7.2.1 As we have noted earlier in these Submissions, SEC considers the lack of emphasis on leadership and innovation in the Draft DSM Framework and Guidelines to be a significant problem.

7.2.2 A good example is the following[21]:

> *"…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.*"

7.2.3 The draft then goes on to set the expectation that the utilities will "build on the experience of other leading jurisdictions". The clear implication is that we should be doing, in Ontario, what utilities in other jurisdictions are doing.

7.2.4 With respect, this is entirely backwards, and a retrograde step in DSM policy and planning in Ontario.

7.2.5 Indeed, it is true that program design by the gas utilities in Ontario should have as its foundation in-depth knowledge of what is working, and not working, in other jurisdictions. However, if that is the end of it, then Ontario utilities become followers, and give up their position as industry leaders.

7.2.6 The Board should send a clear message to Enbridge and Union that they are expected to target, not just maintaining their position of leadership amongst North American jurisdictions, but improving on that position. The target should be that other jurisdictions look to Ontario, because Ontario has the best – most innovative, most cost-effective, most successful – programs.

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[21] At p. 31 of the Draft DSM Framework.

7.2.7 So, should there be a jurisdictional review related to any program? Yes, there should. The purpose of the review should be to show how the Ontario proposed program builds on, and improves, programs elsewhere, or tackles a market context where no-one else has yet done so. The jurisdictional review should, in every case, be expected to demonstrate that Ontario programs are at the leading edge.

7.2.8 To support this direction, SEC has proposed (see Section 5.3) the introduction of an Innovation Fund, which would be a substantial incremental budget available for programs that are completely new, and have not been introduced in other jurisdictions.

7.2.9 Similarly, SEC believes that the utilities should be encouraged to increase the amount of "hard stuff" that they pursue, rather than maintaining their current focus on the "easy stuff". The targets and incentives should reflect an expectation of an increasing level of difficulty, and increasing demands for innovation.

7.3 ***Short Term vs Long Term Focus***

7.3.1 In a number of places, the Draft DSM Framework and Guidelines talk about expecting the utilities to transition from a focus on short-term savings, to a focus on more long-term savings. This is unfair to the utilities, and a misunderstanding of the current framework.

7.3.2 Prior to the current framework, the primary metric for targets and incentives was TRC, which measures the lifetime benefits of a measure, but discounts the future benefits, thus providing more weight to near-term savings. Thus, there was already some emphasis on long-term benefits.

7.3.3 When the current framework was introduced, most of the stakeholders, and the utilities, coalesced around the metric of lifetime cubic meters, which gives equal credit for savings this year, and in year twenty. This increased the emphasis on long term savings.

7.3.4 Today, the gas utilities are delivering savings over, on average, 18.1 years for Enbridge, and 16.5 years for Union[22]. These are excellent results, likely influenced at least in part by the fact that the incentives are tied to longer term results.

7.3.5 SEC agrees that longer term results are an important goal in program design. In our view, the best way to achieve that is to design target metrics, and shareholder incentives, that are consistent with that goal. The current framework already does that.

[22] In both cases, final cumulative cubic meters divided by final annual cubic meters for 2012 results. This produces a weighted average measure life, a good proxy for average length of savings.

7.4 ***Multi-Year Partnerships***

7.4.1 The gas utilities have emphasized in their previous plans the increasing importance of longer term customer relationships in convincing major customers to implement DSM measures. A problem arises because budgets and targets are annual in nature, but the sales activity of the gas utilities often spans multiple years.

7.4.2 Elsewhere in these Submissions we have commented on the need to develop programs for customers that are already at high efficiency levels.

7.4.3 SEC believes that the Board should encourage the gas utilities to develop multi-year partnership programs with customers who are willing to set efficiency goals and achieve them over a several year time horizon.

7.4.4 A good example might be a school board. A school board with 250 schools, for example, could pay $750,000 or more in their rates for DSM programs over the 2015 to 2020 period. The same school board may be considering whether to increase its long-term commitment to energy efficiency measures. The utility could, in those circumstances, enter into an agreement with the school board in which there is a six year plan to implement new measures. The customer and the utility would work together to identify what is possible, and, in return for an incentive equal to or greater than their cost of DSM programs, the customer would make a formal commitment to implement those measures.

7.4.5 This has many advantages. Obviously, critical among them is the need to have senior management buy-in for a multi-year, formal commitment. That is more difficult to get, but the good part is that, once achieved, it ensures adoption of the conservation first culture at the customer, and sets the customer up as a role model for others.

7.4.6 Another advantage is flexibility. Much like a typical custom project, the measures would be customized to the customer. Unlike the typical custom project, the timing and amount of the customer incentives could be custom designed over multiple years. Also unlike the typical custom project, the measurement of results or compliance could be custom-designed for the project. For example, the measures could be at the option of the customer as the project progresses, with the customer incentives paid based on achievement of overall efficiency milestones.

7.4.7 The third advantage is embedded in the concept of "partnership". Where the utility and the customer work together to implement a plan over multiple years, both get invested in the success of the other, and both learn from the relationship. The utilities do this to a certain extent already, but the Board can and should, in our view, free them up to do so in multi-year plans.

7.4.8 SEC therefore proposes that the Board encourage utilities to include multi-year

partnerships with customers as part of their DSM plans.

7.5 ***"Energy Management Services"***

7.5.1 Conversely, the Draft DSM Framework includes a proposal for the utilities to increase their provision of energy management services, "especially large customers that are more sophisticated"[23].

7.5.2 The provision of expertise by the utilities to their customers is often useful, but the focus should be on customers that do not have access to that expertise already. That is not large customers. They usually are the ones that have the resources to hire experts, and there is a broad spectrum of companies supplying those services.

7.5.3 The last thing the utilities should be doing is squeezing out the private sector energy management companies by offering competing services where they are not required. All that will do is limit the availability of the private sector companies, and thus reduce the breadth of expertise available to customers needing energy management advice and assistance. So much for conservation first.

7.5.4 In our submission, the utilities should provide energy management services where there are market barriers preventing the private sector market from providing those services. That could be, for example, for low income users and in similar situations. Otherwise, the utilities' provision of technical expertise should be centred around priming the pump, then influencing customers to acquire the appropriate resources – through outside contractors, or even in-house – to increase their commitment to energy efficiency. The end game should be that the utility's influence and assistance is no longer required, because the customer has adopted the conservation first culture, and has acquired the expertise to see it through. The end game should not be that the customer becomes dependent on utility expertise.

7.6 ***Questions Posed by the Board***

7.6.1 SEC responds to the Board's questions as follows:

7.6.2 ***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.***

7.6.3 See our comments in Sections 7.2 to 7.5, above.

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

[23] Draft DSM Guidelines, p. 2.

7.6.5 No submissions.

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

7.6.7 Gas utilities should be expected to provide programs for all customer classes, and with sufficient range that all customers within each class will have programs available to them. Customers that have reached high levels of efficiency already – whether industrial customers or otherwise – should be entitled to opt out if the utilities cannot offer them acceptable programs.

8 EVALUATION, MEASUREMENT AND VERIFICATION

8.1 *Introduction*

8.1.1 Evaluation is commonly divided into three types:

(a) ***Process Evaluation.*** This is analysis of whether programs are well designed, and are optimized to deliver the best results at the lowest cost.

(b) ***Impact Evaluation***. This includes measurement and verification of results, development of input assumptions and adjustment factors, and audit. Most of what is normally referred to as evaluation is in this category.

(c) ***Market Evaluation***. This is review of the impact of programs on market share of technologies, and things of that nature. It is sometimes used for market transformation programs, for example.

8.1.2 SEC has comments below on Process Evaluation, and on aspects of both the substance, and the procedure, for Impact Evaluation. We have no submissions on Market Evaluation.

8.2 *Process Evaluation*

8.2.1 SEC does not believe that a formal requirement is needed for periodic process evaluations of the utilities' programs, subject to two exceptions noted below. Generally speaking, if the targets and incentives are set appropriately, the utilities are highly motivated to optimize their program offerings. It is in their interest to have thorough process evaluations, so for the most part Board supervision or guidelines are not required.

8.2.2 The first exception is with respect to innovative programs. As we have noted elsewhere in these Submissions, the utilities in presenting their programs to the Board, should be prepared to demonstrate that they are adopting an innovative, leading edge approach. The utilities' process evaluations should be required to include this parameter.

8.2.3 The second exception is with respect to breadth of programs. Elsewhere in these Submissions we have talked about the need to have programs available for all customers. The utilities should be required to report, on a regular basis, on the "coverage" of their programs, and should identify and correct any gaps in that coverage.

8.2.4 Subject to those comments, SEC believes that process evaluation can be left to the utilities, who are motivated to do it well.

8.3 ***Input Assumptions***

8.3.1 SEC has made clear that we oppose the proposal for Board Staff to take over the Technical Reference Manual, and to become the sole arbiter of how savings will be measured. As we have explained in para. 0.2.14 through 0.2.22 of these Submissions, the proposed expansion of the role of Board Staff is just a bad idea.

8.4 ***Net to Gross Ratio***

8.4.1 SEC has comments on two specific areas in Net to Gross, both of which are currently live issues that need policy guidance from the Board:

(a) Calculation of free ridership for custom projects.

(b) Inclusion of various types of spillover in results.

8.4.2 ***Custom Free Ridership.*** This has long been a problem for DSM programs, and not just in Ontario. Free ridership is generally a binary concept (a customer is either a free rider, or not), but it is really about causation, which is not binary at all.

8.4.3 As a result, there is currently a free ridership assumption applied to custom projects (50%), but that assumption has no reasonable relationship to current custom projects. Indeed, it is really not possible for there to be a relationship to current projects. Free ridership is heavily driven by program design. Custom projects are, by their very nature, custom, so the "program design", and therefore the free ridership, will change from year to year.

8.4.4 Free ridership for custom projects is a big deal, because the free ridership level is likely high, and the custom projects deliver the bulk of the utilities' results. We saw that in the recent contested incentive claims by both utilities, where the level of influence of the utility on the customers in custom projects was a key issue.

8.4.5 The Technical Evaluation Committee carried out a jurisdictional review of custom free ridership assumptions in 2013. The intent was to see if there is an emerging consensus as to a fair average to be used. The result of the study was that the assumptions used in other jurisdictions are all over the map, and no conclusions can be reached on what is appropriate in Ontario.

8.4.6 SEC is aware that some parties may propose annual studies of custom project free ridership, precisely because the number will change from year to year, and because getting the number right is so important. We agree in principle that custom free ridership should be assessed annually.

8.4.7 We propose a variation on that concept. The verification and audit process already

includes a review of a statistically valid sample of custom projects, to ensure that the results claimed are correct. This review is audited, and is increasingly being directly supervised by the independent auditor under the watchful eye of the Audit Committee. The reviewers – experienced engineers - dive fairly deeply into the project, to assess what happened, and whether the results are reasonable.

8.4.8 SEC proposes that, as part of that process, the engineering consultants (called CPSV contractors) assign a causation factor to each of the sampled projects. That factor would be their assessment of the percentage influence the utility program had on the customer in carrying out the project. That percentage would rarely be 100%, and rarely be 0%, but could vary widely depending on the project.

8.4.9 In our proposal, the causation factors would be incorporated into the calculation of the realization rate, so that the application of the realization rate to the whole population of custom projects would already incorporate free ridership. The results would be statistically valid, because the sample is so selected.

8.4.10 An additional benefit of this approach is that the work of the CPSV contractors is assessed by the auditors, which would tend to import consistency and fairness into the causation assumptions.

8.4.11 In the (perhaps unlikely) event that the causation figures determined annually end up being consistent year to year, that will be an important learning that may be applicable not only to future Ontario programs, but also to other jurisdictions around North America.

8.4.12 ***Intentional Spillover.*** The Board will be aware that SEC has consistently opposed the inclusion of spillover in savings figures, on the basis that companies should not be rewarded for unintentional results. Just as a commission salesperson is not compensated based on sales he or she didn't generate, so utilities should not be compensated based on customer actions that are collateral, and unintended, impacts of their activities.

8.4.13 The advent of a six-year, or greater, planning cycle allows the utilities to develop programs that generate spillover, not by accident, but entirely on purpose. SEC believes that it would be a step forward for the utilities to design programs with that in mind, and receive incentives if they do so successfully.

8.4.14 To that end, SEC proposes that utilities be invited to include in their programs specific components (or marketing, customer contacts, etc.) that are intended to generate specific and defined spillover. That spillover – which could be either participant or non-participant spillover, depending on the program – would then be eligible either to be included in resource acquisition results, or incented separately.

8.4.15 SEC is not intending with this that the utilities say "We are using radio advertising,

so non-participants will install this measure as well." That is too simplistic. We are proposing that the utilities be encouraged to re-think program design, in order to cause specific spillover to happen.

8.4.16 By way of example, a utility today can convince a customer to repair steam leaks, and give them a $50,000 cheque as an incentive. If that same utility changed their program, so that they convinced the customer to adopt a formal steam leak repair protocol for the future, and offered a $150,000 incentive to do so, that will produce benefits for many years. It is reasonable to give credit for the future benefits that will arise because of the improved program design. Those future steam leak repairs would otherwise be spillover, but they happen due to an intentional program design decision[24].

8.4.17 The same could be true in residential programs. In the simple program, the utility drops off an energy savings kit, made up of pipe wrap, a low-flow showerhead, and two faucet aerators. The utility redesigns the program, so that customers receive the energy savings kit while attending a two hour seminar on home energy efficiency. The utility can then do bill analysis for one year before, and one year after, the seminar, and determine the overall reduction in energy use. It may only be the savings from the ESK. More likely, some of those customers will have implemented other technologies, or behavioural changes, and achieved greater savings. This is spillover, but it is intentional spillover, and should be compensated.

8.4.18 SEC therefore proposes that the utilities be invited to propose programs that include intentional spillover in the program design.

8.5 ***Audit of Results***

8.5.1 The audit process has evolved over the last several years, and is now considerably more rigorous.

8.5.2 SEC believes that the process should be allowed to continue to evolve, as the industry has demonstrated that, through collaboration, it is possible to generate significant improvements in the reliability of results.

8.5.3 We do have two specific recommendations.

8.5.4 Right now Enbridge and Union each have their own audit committee. In our view, these activities are somewhat duplicative. Establishing a single, combined audit committee would not only save some money, but would also increase consistency

[24] A side benefit is that the utility will not need to provide incentives in subsequent years for those steam leak repairs, just to get credit for savings. The fact that the customer is following their own protocol is enough to include those savings.

between the audit results (through use of a single auditor for both utilities each year), and would reduce the potential for the utilities to influence the activities of the auditor[25]. We would also expect that the combined audit would be a more attractive contract for the major DSM audit firms, meaning that their top people would be assigned to it, and the cost may still be lower.

8.5.5 In this respect, we note that the utilities now have experience with a joint committee, the Technical Evaluation Committee, and it is generally working well.

8.5.6 Second, Board Staff has suggested that, if they do not control the audit process, they should at least attend as observers. SEC is opposed to this. The presence of Board Staff would not add any value, and it would not be appropriate for them to report back to the Board on what people said, or didn't say, at meetings. More important, though, audit committees right now are highly collaborative, because the default is a contested hearing. No-one wants that, so people work together to come up with resolutions to difficult disagreements. Much of the evolution of the audit process has come about precisely because of this carefully balanced dynamic. The addition of Board Staff would change that dynamic, and in our view reduce the ability of the audit committee to balance the interests of the parties, and forge creative solutions to issues.

8.5.7 SEC therefore proposes that the Board recommend a single combined audit committee for both utilities, but that Board Staff not be inserted into that process.

[25] Although, in fairness, this is much less of a problem than it once was.

9 DEFERRAL AND VARIANCE ACCOUNTS

9.1 ***General***

No additional submissions

10 DSM/CDM INTEGRATION

10.1 *Introduction*

10.1.1 The Directive communicates the Minister's expectation that electricity and gas conservation programs will be integrated as much as possible, and tasks the Board with achieving that result.

10.1.2 This issue disaggregates into two components: integration of the processes, and integration of program design and delivery.

10.2 *Methodological and Process Integration*

10.2.1 There is a fundamental difficulty with integrating the processes associated with gas and electricity conservation: the Board controls those processes for gas, but the OPA has its own, quite different, processes for electricity. The Board has no control over those.

10.2.2 In our submission, unless the OPA is willing to adopt processes – for program development, EM&V, stakeholder consultation, etc. – similar to those currently in use in the gas distribution sector, the Board's ability to integrate processes and methodologies is almost zero.

10.2.3 We note that the alternative, of course, is for the Board to implement processes and methodologies for gas similar to those mandated by OPA for electricity, i.e. to simply follow the OPA lead. This would be detrimental to gas DSM, for at least four reasons:

(a) Gas DSM is delivered by two privately-owned utilities who each have twenty years of experience in the sector, and design and deliver their own programs. Electricity CDM is delivered by 72 diverse and mostly publicly-owned utilities who have little or no CDM experience, and are not adding much to that experience by operating under the close direction of the OPA as delivery agents for OPA designed programs.

(b) The OPA's legal structure is one of bureaucratic oversight. The Board's legal structure is one of adjudication of rates according to well-understood legal principles.

(c) The fundamental basis of the Board's processes is collaboration. There is little meaningful collaboration in the OPA's processes.

(d) The results for Ontario gas DSM programs are among the best in North America. The results for Ontario electricity CDM programs are not in the top

echelon of North American jurisdictions.

10.2.4 For these reasons, we believe that, unless and until the OPA, the Minister, or the Legislature acts to bring the OPA's processes and methodologies closer to those used for gas DSM, it would be unwise for the Board to attempt to integrate gas and electric conservation at the process level.

10.3 ***Program Design and Delivery Integration***

10.3.1 The same conclusion does not hold for co-ordination of program design, or even program delivery. The Board can and should, in our view, encourage the gas utilities and the OPA to work together in these areas.

10.3.2 We do, however, offer two cautions.

10.3.3 First, the Board should make clear to the gas utilities that they will remain responsible for the quality and success of gas DSM programs. This means, for example, that if the OPA wants to go in a particular direction on program design, the gas utilities should only agree if they conclude that it is the optimum program design for delivery to gas customers. It also means that if the OPA wants to focus on less innovative programs, the gas utilities should either convince them to be more innovative, or focus their non-joint offerings on more innovative work. It also means that, if the OPA's past practice of limited stakeholder involvement continues, the gas utilities should separately continue those activities, since they have produced better programs in the past as a result of that involvement.

10.3.4 Second, the gas utilities should be advised that co-ordination of program design and delivery cannot slip into a process and methodology takeover by OPA. For example, the OPA has its own internal methods of evaluation and audit. It should be clear to the gas utilities that the evaluation and audit protocols authorized by the Board for gas DSM cannot be supplanted by the OPA in joint programs. There is no evidence that the OPA's calculation of gas DSM results would have a quality or rigour comparable to that already being delivered in the gas sector.

11 INTEGRATED RESOURCE PLANNING

11.1 *General*

11.1.1 Little work has been done in recent years to ensure that conservation options are considered, alongside supply options, in capital investment planning by the gas utilities.

11.1.2 In our submission, the gas utilities should be required, before the end of 2015, to file with the Board, either individually or jointly, a comprehensive proposal to integrate conservation options into their capital investment planning.

11.1.3 We note that this approaches the issue from a different direction than is suggested in the Draft DSM Framework. We are approaching it as an issue of capital investment planning, not an issue of DSM program design. The latter happens because of the former. Or, put another way, a new DSM plan is not going to change how capital investment planning is done. That is not how gas utilities work. Changes to capital investment planning, however, could well change how DSM programs are designed.

11.1.4 For this reason, meeting this proposed requirement would likely not be the responsibility of the DSM groups within the utilities. This will instead be managed by the system planners (perhaps with the involvement of the DSM groups). Therefore, it is appropriate, in our view, for this requirement to be hived off from the DSM Framework, and proceed on a separate track for consideration by the Board. The proposals from the two utilities would be a good starting point, either for a policy consultation, or for a generic hearing, to consider updated integrated resource planning principles.

12 OTHER MATTERS

12.1 ***Costs***

12.1.1 The School Energy Coalition hereby requests that the Board order payment of our reasonably incurred costs in connection with our participation in this proceeding. It is submitted that the School Energy Coalition has participated responsibly in all aspects of the process, in a manner designed to assist the Board as efficiently as possible

All of which is respectfully submitted.

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Jay Shepherd

Counsel for the School Energy Coalition