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By electronic filing

October 16, 2014

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th floor
Toronto, ON M4P 1E4

Dear Ms. Walli,

Draft Report of the Board on the Demand Side Management ("DSM") Framework for Natural Gas Distributors for 2015 to 2020 and
Draft Filing Guidelines to the DSM Framework
Board File No.: EB-2014-0134
Our File No.: 339583-000173

On September 15, 2014, the Board requested comments from stakeholders on the Draft Report of the Board on the DSM Framework for Natural Gas Distributors ("DSM Framework") and on the Draft Filing Guidelines to the DSM Framework ("Draft Filing Guidelines"). These are the submissions of Canadian Manufacturers & Exporters ("CME") in response to that Board request.

Prior to the issuance of the Draft DSM Framework, Board Staff convened a Working Group of 12 stakeholders to provide advance input. CME was not asked to participate in that Working Group. However, we have had the benefit of conversations with School Energy Coalition ("SEC") and Consumers Council of Canada ("CCC"), both of whom participated in that Working Group. We are grateful that these 2 intervenors solicited feedback from us during the Working Group process.

Moreover, prior to the drafting of these comments, CME has also had conversations with Green Energy Coalition ("GEC") and with Enbridge Gas Distribution Inc. ("EGD"). Moreover, GEC and SEC provided us with draft versions of their written submissions. We support many of the points in those arguments and have attempted to supplement rather than duplicate the arguments so capably presented by these parties.

Background

Before commenting upon specific issues raised in the Draft Report of the Board, we wish to make some broad-based comments.

To begin with, CME's members strive to remain competitive not only within Ontario, but throughout North America. Recognizing that energy is a central cost-driver for many manufacturers, CME has been and remains a strong proponent of conservation. CME strongly supports DSM conducted by the Natural Gas Utilities so long as the benefits of DSM demonstrably outweigh the costs of DSM.

Within this context, we feel it is incumbent on the Board to carefully balance the costs of DSM with rate affordability. The resulting DSM Framework should explicitly require that the benefits flowing from DSM activities demonstrably outweigh the corresponding DSM costs. The DSM Framework should also include a mechanism that enables the Board to balance DSM costs with the need to maintain rate affordability on an ongoing basis. Such an assessment should not be limited to an isolated assessment of only the rate impact of DSM on the natural gas distributors. Rather, the costs should be considered in a broader total bill impact analysis of the costs of all conservation activities that impact customers of both electricity and gas. In our view, such an analysis would permit the Board to ensure that the global costs for DSM and CDM in Ontario remain appropriate.

Finally, in our experience, the landscape of conservation and energy efficiency in Ontario changes at a rapid pace. For this reason, we urge the Board to ensure that the new DSM framework is capable of quickly reacting to ongoing changes - flexibility should be a cornerstone of the DSM framework. The DSM Guidelines should afford natural gas distributors the ability to quickly respond to changing economic conditions, and to provide the Board with the ability to balance rate affordability with the objectives of cost-effective conservation activities.

With these comments, we turn to specific issues raised in the Draft Report.

The Role of Board Staff

As both GEC and SEC express in their respective submissions, one of the general themes of the DSM Framework is an increase in control of the DSM programs and process by Board Staff. While we believe that an increase in Board Staff's participation in the overall DSM process is welcome, it would not be prudent for Board Staff to entirely replace stakeholders in that process.

The current collaborative process that occurs between stakeholders and EGD and Union is generally working well. While there are, from time to time, disagreements between the utilities and some or all of the stakeholders, generally over the past decade, most elements of DSM have proceeded on a consensus basis. This, in and of itself, has significantly increased the credibility of the utilities' respective DSM programs with their customers.

Moreover, as a result of the hard work put in by the utilities and stakeholders, there has developed a significant level of expertise amongst stakeholders. To now exclude that level of expertise from the collaborative process would not benefit the continued promotion of conservation in Ontario.

In our submission, Board Staff can become much more involved in the collaborative process that currently exists, but to replace those stakeholders who have historically been, and continue to be willing to be involved directly with these conservation activities with Board Staff, would be a mistake.

Term and Mid-Term Review

So long as the Board develops a mechanism that enables it to balance DSM costs with the need to maintain rate affordability on an ongoing basis, then we are not opposed to the proposed 6 year term so long as there is a robust mid-term review.

That said, we urge the Board to expressly recognize that such a multi-year plan would require flexibility that allows utilities to adequately react to changes in the marketplace. As set out above, conservation in Ontario can change very fast. Over a 1 to 2 year period, existing programs may become less effective (or completely redundant) while new unforeseen programs may emerge. While the utilities may be able to identify some programs that they anticipate will be offered for the entire term of the plan, we believe this will be very difficult. Therefore, while their overall plan may be approved for an extended multi-year period, there must remain a process by which the approved programs can be supplemented, altered, or removed.

Targets

In our experience, the utilities are in the best position to develop their DSM targets. An external consultant will not have an appreciation of the nuances for each of their respective distribution areas. For this reason, we support the targets being developed by the utilities and then presented to the Board for approval after a consultation process which should include all stakeholders and Board Staff.

To this end, for the reasons set out by both SEC and GEC, we submit that "Option 1", being that the gas utilities develop from proposed provisional long-term natural gas savings targets based on their most recent potential studies, be adopted.

Budgets

The determination of what constitutes an appropriate DSM budget is highly subjective, and as such, can be controversial. The natural gas utilities will spend as much or as little is provided for in their respective DSM budgets. Within this context, DSM budgets are dramatically different than OM&A budgets needed to operate the utility in a safe and reliable manner.

We are generally opposed to establishing DSM budgets as a percentage of total distribution revenue. Particularly in light of the rapidly changing energy efficiency landscape in Ontario, the establishment of DSM budgets through a percentage formula would be arbitrary and not reflective of market conditions, customer needs or rate affordability.

We agree with GEC that there currently is a lack of adequate data and analysis available to properly determine budgets for a six year period. To this end, we believe that the distributors should propose budgets and targets at the same time.

Moreover, the proposed budgets and targets should be justified on the basis of historic results of DSM programs in conjunction with market potential studies. They should also be consistent with the most recent government policies on conservation. These proposed budgets and targets should also take into consideration economic conditions, rate affordability, and the availability of other energy efficiency programs being delivered by governments, utilities, municipalities and/or industry associations.

If the Board elects to impose budgets on Union and EGD, then the starting point should be the gas utilities' current budgets embedded in their 2012 to 2014 DSM Plans. These are based on an upper limit of the budget in 2014, being $32.8M for EGD and $32.2M for Union. In our view, there is no evidence before the Board at this time which justifies materially increasing these budgets. On this basis, we adopt SEC's submissions on the establishment of a preliminary 6 year budget range for EGD of $180M to $240M and a preliminary 6 year budget range for Union of $175M to $235M. In our view, the range proposed by SEC is reasonable.

<u>The Inter-Relationship of Budgets and Targets</u>

It goes without saying that budgets and targets are inter-related.

We agree with SEC's comments that targets are best set in an iterative process that starts with 2 inputs: 1) a market potential study and 2) a preliminary decision on the budget. With these 2 items in hand, the utilities will then be able to prioritize the programs that they should undertake and determine the pace, on the basis of the budget, that the priority items can be undertaken. The utilities can then concurrently propose a final budget and corresponding targets.

We would only add that in undertaking this prioritization and pacing analysis, the utilities should also be directed to ensure that the resulting DSM programs and budget are fairly allocated between all rate classes and that rate affordability is considered for all customers.

We further agree with SEC that the development of programs, budgets and targets is best achieved in close collaboration with stakeholders.

<u>Programs and Program Types</u>

In its submissions, GEC submits that the utilities have a responsibility for developing program designs to achieve goals consistent with a number of principles. We agree with those principles so long as they are appropriately balanced with the over-arching need to maintain rate affordability. We would go on to suggest that an effective DSM portfolio should include programs that balance the following objectives:

- Maximization of cost effective natural gas savings;
- Provision of equitable access to DSM programs among and across all rate classes to the extent reasonable, including access to low-income customers;
- Prevention of lost opportunities; and

- Pursuit of deep energy savings.

We further support SEC's submissions on programs, and, in particular, the value of EGD and Union implementing and improving the programs of others, and developing new programs so that other jurisdictions are looking to Ontario as a conservation leader.

One of the issues raised by SEC is whether customers should be permitted to "opt out" of DSM. In the past, CME has supported permitting large volume customers that have reached a sufficiently high level of conservation efficiency to be entitled to "opt out" of DSM. In such a situation, those customers would either not pay a portion of the DSM budget allocated to that rate class or, alternatively, receive a DSM rebate. So long as such customers can demonstrate that they have achieved a high level of conservation savings, we would not oppose such an opt-out option.

Incentives

The Board has asked whether the proposed shareholder incentive (total of 15% of budget – 10% for achieving 100% of target with an additional 5% for achieving 150%) is sufficient to fully engage the gas utilities to deliver significant DSM results from 2015 to 2020. We do not oppose setting the shareholder incentive at this level.

In light of Ontario's strong direction to develop a "culture of conservation", as well as the fact that both utilities have very mature DSM programs, incentives in this range would appear to be sufficient to fully engage the gas utilities. This level of incentive will also contribute to the rate affordability of DSM

The Draft Report also asks whether a "pay-for-performance" funding/incentive model is appropriate. For the reasons set out by SEC, we agree that a "pay-for-performance" funding model is an approach worth pursuing in Ontario.

Evaluation, Measurement and Verification

We support and adopt the submissions of SEC.

Costs

CME requests 100% of its reasonably incurred costs associated with this proceeding.

Yours very truly,

Vincent J. DeRose

c. Intervenors EB-2014-0134
Paul Clipsham and Ian Shaw

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