Background

The DSM Guidelines for Natural Gas Distributors (EB-2008-0346), issued by the Board on June 30, 2011, provides for a three-year term ending December 31, 2014. In addition, the Minister of Energy's Conservation Directive requires the Board to establish a DSM policy framework for natural gas distributors.

On April 10, 2014 the Board issued a letter initiating a consultation process to review the current DSM Guidelines and develop a new DSM Framework to be used for the development of the next generation of DSM plans. The September 15th release of the Draft Report of the Board and the Draft Filing Guidelines were accompanied by a letter inviting comment from stakeholders on the documents and some embedded questions. The following are the responding comments of the Federation of Rental-housing Providers of Ontario ("FRPO").

Responses to the Draft Report of the Board - DSM for NG Distributors ("the Report")

DSM TARGETS

The Board is considering two options for how to appropriately develop the long-term natural gas savings targets to be met by 2020:

Option 1 – the gas utilities develop and propose provisional long-term natural gas savings targets based on most recent potential studies.
Option 2 – the Board develops provisional long-term natural gas savings targets based on an assessment and analysis of achievable potential by the Board, making use of studies that are available.

As the Report noted, the interrelatedness of targets and budgets makes it difficult to establish one without the other and there is significant diversity in opinion on the issue of potential. However, assuming the utilities want to maintain their current role as program developer and implementer[1], we submit that they have the better ability to extrapolate their current experience and recent potential studies to create long-term savings targets. In recognizing that there will be incentives associated with meeting targets/performance, the utilities would maintain accountability for delivering on realistic targets.

In addition, the Board requested response to the following questions:

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)?

While 5% appears to be reasonable metric upon which utility targets can be evaluated, we understand and respect that the two utilities operate in markets with varying degrees of potential based upon customer class. Recent history, and we believe, longer term results demonstrate

[1] The willingness and desire of the utilities to maintain this role will be discussed later under shareholder incentives

Union's superior results due to a preponderance of industrial customer class opportunities. Therefore, as stated above, we would submit that each utility would submit their respective targets based upon their developed expertise and informed by recent potential studies and those targets may vary from 5% with reasons.

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

See as answers above.

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

Utilities have access to market data, relationships and consultants who have information on best practices in other comparable jurisdictions that can inform future opportunities.

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?

If the operative word is guide, or as referred to above metric, yes. But as noted above and emphasized here, each utility would bring for its respective targets after consultation with stakeholders, to the Board in a hearing process. The consultation provides opportunity for both efficiency and effectiveness in our view.

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

See above.

BUDGETS

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

Option 1 – the gas utilities develop and propose DSM budgets which are a product of the analysis conducted relative to the amount of funding required to meet the long-term natural gas savings target.

Option 2 – the Board establishes a guideline for maximum DSM budget levels which considers rate impacts to customers but will allow the gas utilities to pursue significant natural gas savings between 2015 and 2020.

Due to the aforementioned interrelatedness of budget and target, it is difficult to establish the target without the budget and vice-versa. To reduce the risk of multiple iterations, which would not be efficient nor effective, we submit the Board could provide a reasonable range of budget over the 6 year period which would allow the utilities to ramp up their capabilities to deliver increases in scale or scope where they determine they can invest effectively.

In addition, the Board requested response to the following questions:

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

As described above, guideline range for maximum DSM budgets would communicate the Board's expectation directionally while allowing utility-specific, target-seeking, stakeholder-informed budgets to be presented to the Board for approval.

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

In reading the Concentric, we were baffled by the exclusion of several jurisdictions in the calculation of the respective DSM budget percentages which seemed somewhat arbitrary and precluded understanding of the range and resulting average if all were included. Then, we considered the optimal target and realized that a number of factors including, notably, effectiveness of expenditure, would provide the respective utilities with what jurisdictions may be models to follow. However, using an average of selected jurisdictions with variable ranges of effectiveness did not seem to be an appropriate approach.

Having knowledge of the School Energy Coalition ("SEC") submission of a reasonable range being current budget plus or minus 15% over the six year period seems to be a more Ontario specific, empirically supported approach.

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

Input by the utilities as to their ideas on changes to scale or scope of programs including concerns over maturation of historic market potential.

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

See number 2) above.

SHAREHOLDER INCENTIVE

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

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

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

In our view, the level of Shareholder Incentive tied to DSM budget has not made sense. Utilities are provided with approximately $30 million of ratepayer dollars with which to hit performance targets and, if they excel, they receive a $10 million bonus **when they have no risk.** Therefore, we believe that Option 2 is substantially preferable.

In addition, the Board requested response to the following questions:

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

We do not agree that tying shareholder incentive to budget is appropriate.

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.

While we do not believe that tying shareholder incentive to budget, it is clear from the Concentric report that the Ontario utilities are incented well relative to their counterparts in the US. We submit that the existing 100% incentive should be cut in half to around $4 million and then provide the utilities with the opportunity to propose an incentive structure that meets the goals established by the Ministry and the OEB.

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.

We support a cost efficiency incentive. However, we would propose the Board direct the utility to use the surplus "carry-over" funds to increase the reach of programs or innovate to pilot new programs to meet the Ministry and OEB goals. As an example, "carry-over" funds could be designed to increase the geographical scope of the Low-income utility programs while the resulting savings could go toward the utility targets. The requirement would be that the "carry-over" funds can only be used in providing some new type of program or an extended reach of an existing program.

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

Due to a perceived sense of entitlement, the utilities may complain that they are not sufficiently incented to generate the targeted savings. In our view, if this is the case, we would respectfully submit that other private organizations (e.g., Super-ESCO) could be offered the opportunity to develop ratepayer funded programs and receive comparable incentives. While we recognize that this approach may result in some transition costs and changing of existing structures, we believe that a well-run private organization would seize the opportunity to earn incentives by running ratepayer-funded programs funded with no downside risk for underperforming.

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

While careful thought ought to be put into the design of a pay-for-performance model to avoid unintended outcomes, we would support the implementation of such a structure as an improvement.

<u>PROGRAM TYPES</u>

In the draft DSM Framework and companion DSM Guidelines, the Board has outlined the direction it feels the gas utilities should transition DSM activities throughout the new DSM term. Interested parties are invited to comment on the following questions:

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.

Other programs proposed by the utilities that have stakeholder support because they are generated by the utilities experience and have tested by stakeholders as having merit. An example of this could be fuel switching such as CHP if it is demonstrated to be TRC positive.

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

We support the current level of funding developed through multiple proceedings.

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

We support the current construct as recently tested and approved.[2]

[2] EB-2012-0337

PROGRAM EVALUATION

At a very high level, we are very concerned with the proposed transition of coordination from the utilities to the Board. Respectfully, we are concerned with the Board's resources and experience to carry out these responsibilities but will leave the specific submissions to others whom we know share that concern.

Draft Filing Guideline Submissions

With the considerable scope that the Board has undertaken in this review, we understand where some sub-issues may not have been prevalent to the Board and to the Working Committee in the development of these documents. However, we are concerned that the Low-income Eligibility Criteria, as in past guidelines, mirrors those of the OPA without consideration for the differences in electricity and gas metering. The practical effect of these criteria preclude tenants in privately-owned, multi-family buildings from accessing Low-income benefits and that is where the majority of Low-income families live.[3]

In the EB-2008-0346 proceeding, FRPO provided an extensive submission on its concerns over preclusion of Low-income benefits to tenants living in privately-owned, multi-family buildings.[4] While the issue was not directly acknowledged by the Board in its resulting guidelines, intervenors and the utilities discussed the issue in the resulting ADR's for the 3-year DSM plans of 2012-14. Through the resulting agreements, progress has been made by both utilities in understanding the opportunities available to overcome barriers to this market. In fact, after consultations with an intervenor working group, Enbridge led the establishment of a steering committee compromised of United Way, City of Toronto Tower Renewal, Toronto Hydro and FRPO to bring the potential of both gas and electric savings to low-income tenants. While still in the stages of limited rollout, we would expect that this is the type of innovation and collaboration that the Board is seeking. Therefore, we respectfully request the Board leave open this type of opportunity for Low-income eligibility even if the tenant does not pay the bill directly.

All of which is Respectfully submitted on behalf of FRPO,

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[3] Vertical Poverty: In Poverty by Postal Code 2, http://unitedwaytoronto.com/verticalpoverty/downloads/Report-PovertybyPostalCode2-VerticalPoverty-Final.pdf
[4] FRPO Submissions dated February 14, 2011