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September 1, 2017

Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, ON M4P 1E4

Attention: Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Submissions for Ontario Sustainable Energy Association
Board File Nos. EB-2017-0127 and EB-2017-0128**

Please find enclosed Ontario Sustainable Energy Association's submission regarding Part 1 of the DSM Mid-Term Review.

Yours truly,

Robert Woon

Encl.

Document #: 1250457

ONTARIO ENERGY BOARD

IN THE MATTER OF the Mid-Term Review of the 2015-2020
Demand Side Management Framework for Natural Gas
Distributors

WRITTEN SUBMISSION OF ONTARIO SUSTAINABLE ENERGY ASSOCIATION

September 1, 2017

I. OVERVIEW

- 1 The Ontario Energy Board (Board) is conducting a Mid-Term Review as part of Board's approval of Enbridge Gas Distribution Inc. (Enbridge) and Union Gas Limited's (Union), (collectively the Utilities) 2015-2020 Demand Side Management (DSM) Plan applications.
- 2 As Part 1 of the Mid-Term Review, the Board is conducting a limited review of the 2015-2020 DSM Framework in the context of the province's Cap and Trade (C&T) Program. The Board is seeking comments on the following issues:
 - (a) consideration of the relationship between the current suite of DSM program and actual C&T activities of customers with their own compliance obligations

- (b) consideration of the attribution of costs and savings to ratepayer-funded DSM programs where natural gas utilities offer carbon abatement programs in the market.

II. FULL REVIEW OF DSM PROGRAM AND CAP AND TRADE PROGRAM REQUIRED

- 3 The Utilities' applications for their respective 2015-2020 DSM Plans were approved by the Board on January 20, 2016 (EB-2015-0029/EB-2015-0049). Ontario implemented the Cap and Trade Program as of January 1, 2017. As such, the 2015-2020 DSM Framework does not adequately address the Cap and Trade Program.
- 4 The Board in its decision in EB-2015-0029/EB-2015-0049 stated, "The mid-term review will also allow the OEB to consider the DSM Framework relative to the overall energy conservation landscape, including any new or revised government direction" and included reference to the pending Cap and Trade Program.¹
- 5 The Board has included Cap and Trade as part of the Mid-Term Review. However, the scope of the Mid-Term Review in the context of Cap and Trade is limited to the two issues identified. The Board indicates that a more complete review will be conducted as part of a post-2020 DSM Framework that will align with a Cap and Trade Framework review before 2020.
- 6 OSEA respectively submits that a complete review of how the DSM Program and Cap and Trade Program will co-exist should be conducted during this Mid-Term Review or a consultation process to be scheduled before 2020.

¹ EB-2015-0029/EB-2015-0049, Board Decision and Order dated January 20, 2016, p 85.

- 7 The DSM Program and Cap and Trade Program are inherently intertwined. They share common goals and objectives to reduce natural gas consumption and GHG emissions, and promote a mix of energy efficient, renewable and sustainable technology. The programs both move Ontario towards a low carbon economy.
- 8 Ratepayers and the Utilities need to work to implementing significant greenhouse gas abatement measures in order to meet Ontario's greenhouse gas reduction targets. The Utilities' DSM Programs will be a key tool in order to meet these greenhouse gas reduction targets.
- 9 Though the two programs have similarities, there are differences and overlap between the programs that must be reconciled. It must be determined how these two programs will formally interact and co-exist moving forward.
- 10 A thorough assessment of the two programs should not wait until 2020. Ontario's Climate Action Plan for 2016-2020 proposes significant investments before 2020 that should be explored by the Utilities to determine how provincial funding can be used to accomplish the goals of the DSM Program and Cap and Trade Program. Some of these proposed investments include but are not limited to:
 - (a) \$300M to \$400M for apartment buildings to install energy efficient technologies, such as boiler replacements, adaptive thermostats, and lighting retrofits

- (b) \$400M to \$800M for institutions such as schools, hospitals and universities to install renewable energy technologies such as solar thermal and geothermal systems
- (c) \$500M to \$600M for homeowners to install low-carbon energy technologies, such as geothermal heat pumps, air-source heat pumps, solar thermal and solar energy generation systems
- (d) \$60M to \$100M to support renewable natural gas.

11 The Board recognized that the two programs are connected and identified that this Mid-Term Review should be the opportunity to examine both programs, stating “The DSM framework also includes a mid-term review provision (to be completed by June 1, 2018) that will provide an appropriate opportunity to assess the DSM framework in light of the Cap and Trade Program.”²

12 Enbridge also supported a review of the DSM Program and Cap and Trade Program during the Mid-Term Review of the DSM Framework. Enbridge stated in its 2017 Cap and Trade Compliance Plan:

*...the Company agrees that the DSM Mid-Term Review will provide ample opportunity to consider the relationship between DSM programs and other future customer abatement activities, which should include a review of DSM’s role within the Company’s overall compliance planning activities. A focused evaluation of the level, pacing and cost effectiveness of DSM as a compliance tool within the DSM Mid-Term Review will allow the Company to consider the inclusion of DSM within a Compliance Plan beyond 2017, while also avoiding disruption of the Company’s existing DSM programs currently in the market.*³

² EB-2015-0363, OEB, Report of the Board, Regulatory Framework for the Assessment of Costs of Natural Gas Utilities’ Cap and Trade Activities dated September 26, 2016, p 28.

³ EB-2016-0300, Enbridge Evidence, Exhibit C, Tab 3, Schedule 4, p 2.

Given the timing of the release of the Framework, the Company has not had sufficient time to plan, design or implement any proposals for additional rate payer funded DSM customer abatement activities within its 2017 Compliance Plan. As stated above, this is a topic area that the Company believes is more appropriately dealt with during the DSM Mid-Term Review.

III. COSTS AND SAVINGS OF DSM PROGRAMS AND CARBON ABATEMENT PROGRAMS

- 13 OSEA generally supports the DSM Program and does not think the DSM Program should be discontinued in light of the Cap and Trade Program because of potential overlap. However, adjustments to the DSM Program are required to account for the Cap and Trade Program.
- 14 The DSM Program serves as an important part in helping to reduce greenhouse gas emissions in Ontario and energy bills for ratepayers. Natural gas savings produced by DSM Programs assists to lower the compliance obligations of the Utilities, and ultimately the cost to ratepayers, under the Cap and Trade Program. The Utilities' 2017 Cap and Trade forecast attributed DSM programs to providing approximately 321.4 million m³ (Union) and 28.4 million m³ (Enbridge) of natural gas consumption savings.⁴
- 15 Elimination of the DSM Program will lead to the elimination of vital abatement measures that reduce both natural gas consumption and greenhouse gas emissions. Under the Cap and Trade Framework, Utilities must demonstrate that their Compliance Plans are cost-effective and reasonable. Arguably, Utilities will implement customer abatement measures that are shown to be more cost-effective than the purchase of allowances or offset credits. The Province's

⁴ EB-2016-0296, Union Evidence, Exhibit 2, Schedule 1; EB-2016-0300, Enbridge Evidence, Exhibit B, Tab 2, Schedule 1, p 2.

Marginal Abatement Cost Curve indicates that several existing DSM measures will meet this criteria based on the 10-year forecast of carbon pricing. However, Utilities are not mandated to incorporate customer abatement measures or required to meet emission reduction targets in their Cap and Trade Compliance Plan. Utilities have limited incentive to incorporate customer or facility abatement measures since Cap and Trade compliance costs are fully recovered through ratepayers.

- 16 Though the two programs should co-exist, the programs cannot be assessed in silos. The Utilities should establish the link between the two programs.
- 17 The attribution of costs and savings for the DSM Program to-date has been relatively straight forward. The Utilities did not propose incremental customer abatement beyond DSM measures in their 2017 Cap and Trade Compliance Plans except for the Home Reno Rebate offerings through the Green Investment Fund. However, the simplicity of attribution will likely not be the case in the long term.
- 18 The existence of DSM Program does not eliminate the need for additional customer abatement measures under the Cap and Trade Program. The Cap and Trade Framework encourages Utilities to consider longer-term investments in greenhouse gas abatement that may be more expensive than the purchase of allowances. As stated above, Utilities should be exploring whether funding is available under the Climate Change Action Plan that can be used to implement longer-term investments and more expensive abatement measures that might not be available under the DSM Framework because of they do not meet the

required TRC-plus ratios. This may include renewable and sustainable energy technologies, such as geothermal and solar thermal system.

- 19 It will become increasingly difficult to attribute costs and savings between the DSM Programs and Cap and Trade Programs. There are duplications of approved DSM measures and potential customer abatement measures.
- 20 The Board should consider whether a new metric is required to account for costs and savings of abatement measure which reduce natural gas and greenhouse gas emissions. The Total Resource Cost test under the DSM Program and MACC under the Cap and Trade Program are made for two different purposes, and do not account for the benefits and objectives of the respective programs.
- 21 Utilities should assess whether the Total Resource Cost-plus test can be modified to account for Cap and Trade compliance savings. The revised TRC-plus test should be used to screen prospective and existing programs to identify measures for the DSM Program that previously failed to meet the required TRC-plus ratios.
- 22 Shareholder incentives under the DSM Framework should be reviewed to determine whether they should be based on the new metric to encourage the Utilities to implement customer abatement measures that reduce greenhouse gas emissions beyond approved DSM measures that focus only on natural gas savings.

IV. LARGE FINAL EMITTERS AND VOLUNTARY PARTICIPANTS

- 23 OSEA is supportive of maintaining the current suite the DSM Programs for ratepayers who are large final emitters and voluntary participants under the Cap and Trade Program.
- 24 The Board should require the Utilities to conduct an analysis to assess how many of their respective customers are large final emitters and voluntary participants to understand the scope of this issue.
- 25 The elimination of DSM Program for large final emitters and voluntary participants presents a risk of eliminating important natural gas and greenhouse gas emission reduction measures. The Board in its decision to include large volume customers in the 2015-2020 DSM Framework discussed the evidence that large volume customers would not initiate all cost-effective conservation if DSM programs were not offered.⁵ The Board relied on expert evidence that large volume customers did not actively pursue all available conservation.
- 26 Further, the Board found that the lost opportunity for natural gas savings from large volume customers “would be substantial” and that the large volume customers segment has the largest gas consumption and greatest potential for savings. The OEB stated, “the significant benefits of continuing Union’s self-directed Large Volume program outweigh the costs of delivery and it would be inappropriate to stop a program that has been so cost-effective.”⁶

⁵ EB-2015-0029/EB-2015-0049, Board Decision dated January 20, 2016, p 50.

⁶ EB-2015-0029/EB-2015-0049, Board Decision dated January 20, 2016, p 51.

- 27 Though large final emitters and voluntary participants have their own Cap and Trade compliance obligations and may have financial incentives to incorporate carbon abatement measures, the Board has previously found that financial incentives may not be sufficient for customers to incorporate conservation measures.
- 28 The Cap and Trade benefits of overall reducing greenhouse gas emissions by offering DSM Programs to large final emitters and voluntary participants will likely outweigh the cost, since these programs are cost-effective. The technical support and customer training provided by the Utilities creates added benefits to meeting the goals under the Cap and Trade Program.
- 29 Similar to non-large final emitters, the shareholder incentives should be tied to new metrics that take into consideration Cap and Trade savings and costs, and not solely lifetime natural gas savings. To avoid cross-subsidization, where possible program costs should continue to be restricted to the customer classes that contain large final emitters and voluntary participants.