

ONTARIO ENERGY BOARD

EB-2019-0003

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

AND IN THE MATTER OF consultation on the post-2020 natural gas demand side management framework;

**Joint Comments of
Environmental Defence and the Green Energy Coalition
Re Phase I of the Post-2020 DSM Framework Consultation**

June 27, 2019

Overview

According to a binding Minister's Directive, the Board is required to establish a DSM Framework that "shall enable the achievement of all cost-effective DSM."¹ The current provincial government reaffirmed this requirement just a few months ago in its March 20, 2019 Minister's Directive. It clearly stated that this requirement "shall remain in full force and effect."² To more clearly focus on this mandatory directive, Environmental Defence and GEC recommend a number of modest amendments to the DSM Framework principles and objectives, as detailed below.

Environmental Defence and GEC also ask that the Board expedite the development of the new DSM Framework. This is necessary to ensure compliance with the Ontario Government's Environment Plan. The plan includes significant expanded DSM programs and savings starting in 2019 and 2020. The utilities state that they require a decision in this process by the fall in order to prepare DSM plans, obtain approval for those plans, and roll out new programs in January of 2021. This timeframe is possible, but will require an expedited process. In the interim, we ask that Enbridge be directed to increase gas savings within the existing program offering in 2020 by as much as is reasonably possible and consistent with the Environment Plan.

Principles

Environmental Defence and GEC propose the following amendments to the DSM Framework principles:

Principle 1 and 2: Combine and Focus on the Directive

Environmental Defence and GEC recommend that principles 1 and 2 be combined. Those principles read as follows:

1. Invest in DSM where the cost is equal to or lower than capital investments and/or the purchase of natural gas.
2. Achieve all cost-effective DSM that results in a reasonable rate impact.

We recommend that these principles be collapsed into the following single principle:

Achieve all cost-effective DSM that results in a reasonable **bill** impact.

This amendment would appropriately focus more clearly on the mandatory Minister's Directive to achieve all cost-effective DSM. It would also avoid potential confusion arising because the

¹ Minister's Directive, March 26, 2014, para. 4(i).

² Minister's Directive, March 06, 2019, para. 5.

current two principles are similar but potentially conflicting. Focusing on the clear wording derived from the mandatory Minister’s Directive would be the most clear, simple, and straight forward approach.

Focusing on the achievement of all cost-effective DSM is also in the interest of consumers because DSM can greatly reduce energy bills. For each dollar invested, much more than a dollar is saved, primary through natural gas savings. Consumers benefit. According to the latest “Potential Study” commissioned by the Board, natural gas DSM programs could save consumers over **\$85 billion** dollars in natural gas costs by 2030 if expanded to capture all achievable cost-effective DSM savings.³ That is over **\$23,000 per customer** on average (approximately \$1,000 per residential customer and \$195,000 per commercial/industrial customer).⁴

The potential savings are so high because there is huge potential to make homes and businesses more efficient via cost-effective programs that pay for themselves multiple times over.⁵ This is especially true for commercial and industrial customers.⁶ In addition, the savings from energy efficiency programs persist for a long time (e.g. the lifetime of more efficient equipment).⁷ Modest monthly savings add up over the years (even after reducing future savings by a discount rate).⁸

With respect to the specific wording, Environmental Defence and GEC also recommend that the words “rate impact” be replaced with “bill impact.” This would recognize the importance of reducing customer bills. Without this change, the principles could inadvertently cause a disproportionate focus on rate impacts at the expense of the more important question of bill impacts. From a consumer perspective, the important question is the overall cost of energy – i.e. the bill – not merely the cost per cubic metre.

The focus should be on bill impacts for *all* customers, including those who do not participate in the energy efficiency programs, because all customers benefit from system-wide avoided costs arising from DSM. In its decision on the current five-year DSM plans, the Board directed the utilities to “consider a net rate impact approach” that accounts for both “the benefits and costs of

³ ICF International, *Natural Gas Conservation Potential Study*, commissioned by the OEB, July 7, 2016 p. 143 (Energy efficiency programs that are both cost-effective and achievable would result in \$85,269 billion in lifetime gas savings for 2019 to 2030, which equals \$96.6 billion from 2015-2030 minus approximately \$11.0 billion from 2015-2018).

⁴ Enbridge and Union have approximately 3,674,944 customers, of which approximately 3,253,104 are residential customers (EB-2017-0255, Exhibit B.ED.7; EB-2017-0224 Exhibit I.C.EGDI.ED.7); ICF International, *Natural Gas Conservation Potential Study*, commissioned by the OEB, July 7, 2016 pp. 49-50 (Energy efficiency programs that are both cost-effective and achievable would result in \$3.1 billion in lifetime gas savings for 2019 to 2030 for residential customers, which equals \$4.3 billion from 2015-2030 minus approximately \$1.2 billion from 2015-2018).

⁵ ICF International, *Natural Gas Conservation Potential Study*, commissioned by the OEB, July 7, 2016. p. 143.

⁶ *Ibid.* pp. 88-89 & 125-127 (Quantifying the major commercial and industrial savings available).

⁷ *Ibid.* p. 7.

⁸ *Ibid.* p. 143 & footnote 64 on p. 49 (The value of future gas savings cited above have been discounted for the discount/inflation rate to account for the fact that current savings are worth more than future savings.)

the DSM programs,” including the system-wide benefits that accrue to non-participants.⁹ The “demand reduction impact on price” is one example of this kind of system-wide benefit provided by the Board.¹⁰ DSM leads to certain avoided costs for all consumers, including non-participants, which lowers bills. Focusing on bill impacts is the most accurate approach that is consistent with the Board’s decision on the current DSM plans.

Principle 3: Improve Customer Access

We recommend the following change to principle 3:

Where appropriate, coordinate and integrate DSM and electricity CDM efforts to achieve efficiencies and improve ease of access.

Coordination of programs can improve efficiency *and* make it easier for consumers to access programs. For example, one application or entry point is easier than two. This should be reflected in the relevant principle to make it clear that coordination and integration should also be pursued where it will enhance ease of access.

Principle 5: Refocus on Portfolio-Wide Equity

We recommend rewording principle 5 and refocusing it on customer equity. The principle currently reads as follows: “design programs so that they achieve high customer participation levels.” Aiming to achieve high participation rates may not make sense for every situation. For example, while programs that promote the purchase of more standard and/or very low cost technology should probably aim for very high participation levels, programs that are designed to help customers obtain very deep levels of savings and/or to promote cutting edge technologies or practices may only be initially helpful for the most sophisticated or advanced customers. However, it may still be important to have such lower participation programs as a way of balancing the portfolio in a way that ensures that different customers needs are met. Put another way, the focus of participation rates should be at the portfolio level, not the individual program level.

We recommend the following wording:

Design DSM portfolios to provide opportunities for as many customers as reasonably possible to participate over time¹¹

The benefits of this change include that it:

⁹ Ontario Energy Board, *Decision and Order on Applications for Approval of the 2015-2020 DSM Plans*, EB-2015-0029/0049, January 20, 2016, p. 87.

¹⁰ *Ibid.*

¹¹ Alternatively, to shorten the principle, it could simply read: “Provide opportunities for as many customers as reasonably possible to participate over time.”

- (a) Promotes equity by encouraging opportunities for a wider number of customers to participate;
- (b) Addresses concerns about fairness to non-participants by minimizing the number of customers who truly have no opportunities to lower their bills through DSM programs;
- (c) Does not unduly focus on individual program-level participation rates, fixing a problem with the current wording; and
- (d) Acknowledges that customers likely cannot participate every year, or even every few years, by noting that opportunities need only exist “over time.”

Principle 6: Recognize all Potential Lost Opportunities

Principle 6 currently reads as follows: “Minimize lost opportunities when implementing energy efficient upgrades.” This statement could potentially be read too narrowly. It clearly suggests that programs should be designed to ensure that efficiency projects should be comprehensive and acquire as much savings as is cost-effective once they are initiated. However, it does not as clearly address another important aspect of minimizing lost opportunities. Specifically, we recommend that this principle be amended to recognize that energy efficiency opportunities can be lost if not pursued in the process of new construction, renovations and/or at the time of purchasing new gas-consuming equipment. Many energy efficiency measures are only cost-effective during construction or renovation or when new equipment is being purchased.

This change could be achieved by amending the wording to: Minimize lost opportunities by both targeting time-sensitive opportunities like new construction, renovations, and equipment turnover, and encouraging maximizing of cost-effective savings potential whenever efficiency investment decisions are being made.

Principle 9: Align Interests

We recommend that principle 9 be amended to read as follows:

Shareholder incentives should align consumer and utility interests and encourage maximizing total net benefits for consumers

The fundamental purpose of incentives are to align consumer and utility interests. That should be reflected in this principle.

The reference to maximizing net benefits provides important further high-level guidance. This guidance is appropriate because maximizing net benefits necessitates the achievement of the greatest energy savings at the lowest possible cost.

The current wording and associated description requires improvement. It reads as follows:

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

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

This wording can be interpreted in an under-inclusive and problematic way. The current wording refers to performance in meeting targets and efficient use of funds, but it could be understood as excluding incentives to *develop* optimal DSM programs that maximize net benefits and bill reductions for consumers.

This relates to an issue that Environmental Defence and GEC wish to raise in this proceeding. Environmental Defence and GEC believe the utilities should be incentivized to develop optimal DSM plans that maximize energy bill reductions. At the moment, they are not. Under the current model, utilities have a financial incentive to meet and beat targets set out in their approved multi-year DSM plans. However, they have no financial incentives to design optimal plans that maximize benefits to consumers, achieve the highest energy bill reductions possible, or include the most cost-effective programs available. The utilities actually have a perverse incentive to propose plans with only modest savings targets that are easier to meet and beat.

In other words, utilities are incentivized to *execute* DSM plans well, but not to *design and develop* optimal plans. For example, the utilities have no financial incentive to make additional efforts to include innovative and highly cost-effective programs in their proposed plans.

There are a number of ways to align utility and consumer interests at the DSM plan development stage. For example, the incentive cap could be allowed to increase if the utilities propose plans that achieve higher net benefits. This could be done by holding the current ratio of net benefits to the incentive cap constant. This would allow the utilities to earn more if they achieve more energy reductions for customers without increasing the ratio of utility benefits to consumer benefits. Incentives would still be earned for meeting targets, but the maximum incentive amount could increase if more net benefits are achieved via better DSM plans. This is only one example.

Environmental Defence raised this issue in the DSM Mid-Term Review and asked that it be considered as part of the development of the next DSM Framework. The Board agreed and decided to “review the appropriateness of the shareholder incentive, including the structure and overall amount available to the natural gas utilities, as part of the post-2020 DSM framework development.”¹² Although the appropriate incentive structure is an issue for later in this process, for the purposes of the current phase, Environmental Defence and GEC recommend that

¹² Minister’s Directive, March 06, 2019, para. 5.

principle 9 be sufficiently high-level to allow for an improved incentive structure and should focus on the core objectives of aligning interests and maximizing net benefits.

The Environment Plan

The June 13th stakeholder meeting included some discussion of the carbon emission reductions included in Ontario’s Environment Plan. The plan calls for an incremental reduction of 3.24 Mt CO₂e by 2030. If this reduction is to be referenced in the principles, goals, or objectives, Environmental Defence recommends that it be referred to as a “floor” or “minimum,” with the goal continuing to be the achievement of all cost-effective DSM. The binding directive to achieve all cost-effective DSM remains in place. It was not replaced by the Environment Plan. Instead, the all cost-effective DSM requirement was reaffirmed by the Ontario Government after the Environment Plan was released.¹³

The Environmental Plan emissions reduction level should not be considered a “target” around which budget maximums are developed. This could prevent the achievement of all cost-effective DSM, contrary to the binding directive. It should be a floor or minimum.

Environmental Defence and GEC are not recommending a change to the principles, goals, or objectives in this regard. This comment is provided only in the event that the Board is considering an amendment that would reference the Environment Plan.

Goals and objectives

Goal/Objective (i): Ensure Consistency with the Minister’s Directive

Environmental Defence and GEC recommend that the second sentence of the first goal be replaced as follows:

i. Assist consumers in managing their energy bills through the reduction of natural gas consumption. ~~Customers who participate in the DSM programs should see a decrease in their energy bills.~~ Programs should achieve all cost-effective DSM savings and maximize energy bill reductions for consumers.

The existing wording includes only the very modest objective of achieving *some* energy bill reductions. The proposed wording aims to achieve the greatest bill reductions possible. This would provide helpful guidance as it would encourage Enbridge to design programs that would achieve the greatest savings at the lowest cost.

The proposed wording is also more consistent with the Minister’s Directive. The Minister’s Directive does not say that customers who participate in DSM programs should see *some*

¹³ *Report of the Ontario Energy Board, Mid-Term Review of the Demand Side Management (DSM) Framework for Natural Gas Distributors (2015-2020)*, EB-2017-0127/8, November 29, 2018, p. 29.

decrease in their energy bills. The directive is much more concrete in requiring the achievement of all-cost effective DSM, which in turn would result in the greatest possible bill reductions.

Goal/Objective (iii): Integrated Resource Planning

During the stakeholder meeting, Enbridge indicated that geotargetted DSM aimed at avoiding infrastructure investments requires consideration and/or proceedings outside of the DSM plan process and proceeding. Environmental Defence and GEC agree and support all efforts to achieve integrated resource planning. However, we believe the DSM Framework should continue to include a goal and objective relating to integrated resource planning.

Environmental Defence and GEC also request that Enbridge file a draft proposal regarding integrated resource planning in this process as soon as possible. In its Mid-Term Review Report, the Board stated as follows:

Stakeholders indicated reservations in the usefulness of the transition plan provided by the natural gas utilities. The OEB agrees that although the progress made is at an early stage, the transition plan does not advance the understanding of the role and impact that energy conservation can play in deferring or avoiding capital projects. Currently, leave to construct applications do not include a description of the DSM alternatives considered to help avoid and/or defer the proposed capital project. **The natural gas utilities should continue to develop rigorous protocols to include DSM as part of their internal capital planning process. This should include a comprehensive evaluation of conservation and energy efficiency considered as an alternative to reduce or defer infrastructure investments as part of all leave to construct applications.**¹⁴

A draft of this “rigorous protocol” should be filed by Enbridge as part of this process as soon as possible. This would aid the parties in considering whether any amendments to the Framework are warranted, including with respect to the goals and objectives.

Natural Gas Combustion Reductions

Some intervenors are proposing an additional goal that overall natural gas consumption be made to decline in Ontario over time. Environmental Defence and GEC support this goal in principle.

However, Environmental Defence and GEC do not yet have a position on the wider question of whether all or some of the utilities’ incentives should be paid over time based on achieving annual reductions in measured natural gas usage. Further information and analysis is required on this wider question.

¹⁴ *Report of the Ontario Energy Board, Mid-Term Review of the Demand Side Management (DSM) Framework for Natural Gas Distributors (2015-2020)*, EB-2017-0127/8, November 29, 2018, p. 20.

Scope

The primary issues that Environmental Defence and GEC wish to raise are already included in the scope as defined in the DSM Mid-Term Review Report. In that report, the Board summarized the scope of the post-2020 DSM Framework development process as follows:

“The OEB will consider the topics listed below as part of the development of the post-2020 DSM Framework.

- Budget modifications, including increases and re-allocation of approved funding
- Target modifications, including adjustments to productivity factor
- Shareholder incentive structure
- Scorecard modifications, including metric weighting
- Amortizing DSM costs
- New programs, including pilots”¹⁵

For further detail on why these items should be considered in the post-2020 DSM Framework development process, please see our comments in the DSM Mid-Term review.¹⁶ Those comments have not been repeated here as the Board has already decided to include the above topics in scope.

We also recommend that the Board consider the appropriate cost-effectiveness test, including the possibility of adopting the Utility Cost Test (UCT) as its primary test (while still reviewing TRC Plus results). The UCT simply compares gas ratepayer spending to gas cost savings (including any avoided carbon costs). The concept behind the TRC is a more societal one, comparing the costs and benefits to the utility system plus participating customers. While that ED and GEC believe that the conceptual construct of the TRC is still a good one, we also believe the test has historically been biased in its application because it includes all participant costs but not all participant non-energy benefits (e.g. comfort, building durability improvements, business productivity, health and safety benefits, etc.). The 15% non-energy benefits adder is far too conservative to fully capture such benefits. Because the UCT does not include either participant

¹⁵ *Report of the Ontario Energy Board, Mid-Term Review of the Demand Side Management (DSM) Framework for Natural Gas Distributors (2015-2020)*, EB-2017-0127/8, November 29, 2018, p. 6.

¹⁶ Comments and Recommendations of Environmental Defence and the Green Energy Coalition On the Demand Side Management Mid-Term Review, September 28, 2018

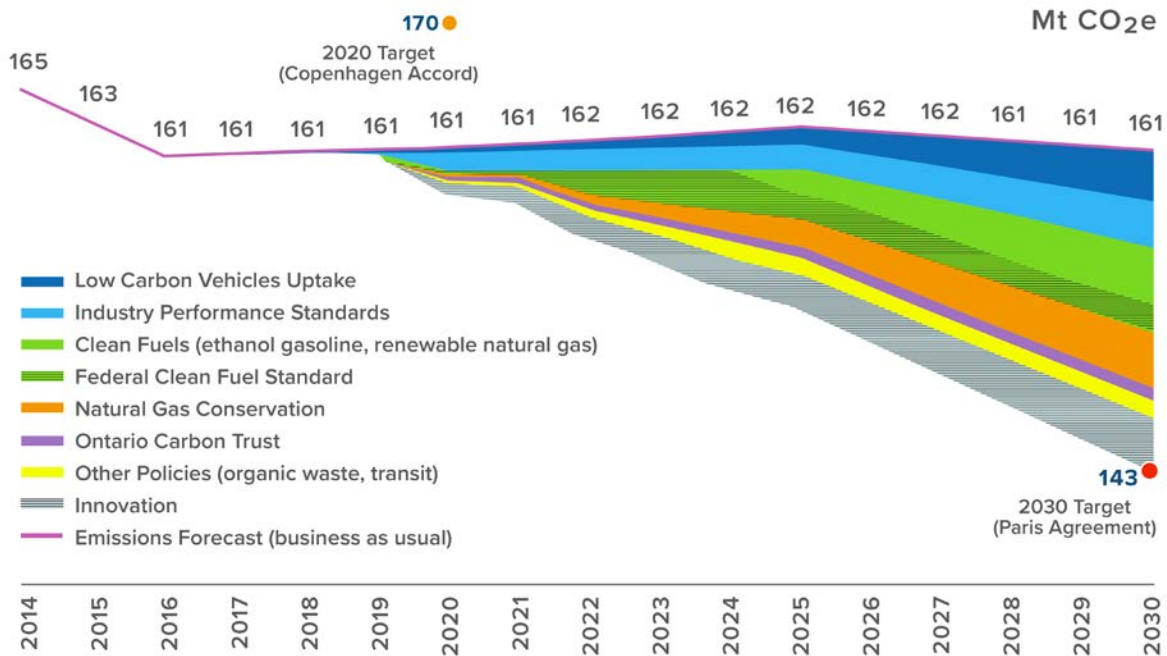
costs or participant non-energy benefits, it is much simpler to apply – and it would get applied in a fair and unbiased manner.¹⁷

One other advantage of the UCT is that it is an indicator of utility spending effectiveness in a way that the TRC is not (i.e. the UCT encourages optimizing of rebate levels rather than being indifferent to them as is the case with the TRC). Furthermore, we believe the Board may already be interested in examining the UCT option as it adopted this test in relation to the cap and trade plan framework.

It would not be onerous or time-intensive to consider adopting the UCT. The TRC and UCT are very well documented and well established cost-effectiveness tests. Indeed, the utilities already calculate the UCT and include the UCT results in their DSM plans. This item could result in a better DSM Framework without delaying of the review process in any way.

Request for Expedited Process

Environmental Defence and GEC ask that the Board expedite this process to ensure compliance with the Ontario Government’s Environment Plan. The plan includes expanded DSM programs and savings beginning 2019 and 2020. This is shown in the below chart excerpted from the Environment Plan.



¹⁷ Note that if the UCT is adopted as the primary test of interest, there would need to be a change in requirements for low income programs for which 100% rebates are typically necessary to ensure participation.

¹⁸ Ontario, *Preserving and Protecting our Environment for Future Generations: A Made-in-Ontario Environment Plan*, November 29, 2018, p. 23.

According to Enbridge, expanded DSM programs could be put into place for January of 2021 if a decision in this process is made by the fall of this year. This is required to provide time for Enbridge to prepare DSM plans and obtain approval of those plans. In the interim, we also plan to ask that Enbridge be directed to increase gas savings within the existing program offerings in 2020 by as much as is reasonably possible and consistent with the Environment Plan.

Success of the Ontario Government's Environment Plan is at stake and time is of the essence.

All of which is respectfully submitted this 27th day of June, 2019,

**Kent Elson
Counsel for Environmental Defence**

**David Poch
Counsel for GEC**