EB-2019-0003

ONTARIO ENERGY BOARD

Post-2020 Natural Gas Demand Side Management Framework

Industrial Gas Users Association (IGUA)

Written Comments on Phase 1 Issues

General Comments

1. Pursuant to the Board's May 21, 2019 letter to interested parties, IGUA provides these written comments on the three specific issues outlined by the Board.

2. First, however, we comment on the statement in the Board's May 21, 2019 letter that; *"The Government of Ontario has confirmed, in its November 2018 Environmental Plan, a commitment to cost-effective conservation of natural gas."*

3. IGUA has raised before, including through comments at the June 13, 2019 Stakeholder Conference, that the phrase *"cost effective"* has been the subject of much debate in the context of ratepayer funded DSM. The phrase has been used by DSM advocates to cast an extremely broad net around long-term, forecast, societal "benefits" to be tabulated in advocating for more DSM and more associated ratepayer funded spending. Under this approach ratepayer funding for DSM essentially becomes ratepayer funding in support of long-term societal welfare.

4. It is instructive to consider what the Ontario Government's November 2018 Environmental Plan actually says about DSM. The document (which is a political statement rather than a technically robust economic or engineering analysis) addresses *"natural gas conservation"* as an element of a forecast *"path to meeting Ontario's 2030 emission reduction target"*. In addition to representation on a graph of the contribution towards that 2030 target of assumed natural gas conservation, the document addresses natural gas

conservation textually in two separate and brief passages in the 54 page "plan". These two passages state [emphasis added]:

> *The Natural Gas Conservation action reflects programs that are well established in Ontario to conserve energy and <u>save people money</u>. This [forecast] case assumes a gradual expansion of programs delivered by utilities, which would be subject to discussions with the Ontario Energy Board.* [Page 23]
>
> *[Under the heading "Actions"] Work with the Ontario Energy Board and natural gas utilities to increase the cost-effective conservation of natural gas <u>to simultaneously</u> reduce emissions and <u>lower energy bills</u>.* [Page 32]

5. These brief statements are both aspirational, in that neither legislation nor formal government instruments (i.e. directives) have been promulgated to provide the Board with any mandated direction in respect of the next DSM framework.

6. Much was made by DSM advocates in support of the current (2015-2020) DSM Framework of the previous government's *"putting conservation first"* policy. Reference to that government's 2013 Long Term Energy Plan (LTEP) is also instructive [emphasis added];

> *As we plan for Ontario's electricity needs for the next 20 years, conservation will be the first resource to be considered. It is the cleanest and most cost-effective energy resource, <u>and it offers consumers a way to reduce their electricity bills</u>. The government intends to ensure that conservation will be considered before building new generation and transmission facilities, and will be the preferred choice wherever cost-effective.*
>
> *The ministry will work with its agencies to ensure that they put conservation first in their planning, approval and procurement processes, the ministry will also work with the Ontario Energy Board (OEB) to incorporate the policy of conservation first into distributor planning processes for both electricity and natural gas utilities.* [Page 20]

7. While the 2013 LTEP does not say anything specific about natural gas ratepayer funded DSM, the then Minister of Energy did issue a formal directive to the Board in March, 2014 which specifically addressed ratepayer funded DSM. The transmittal letter under which the directive was provided to the Board noted [emphasis added];

> *The Directive requires the Board to take steps to promote electricity conservation and demand management and natural gas demand side management <u>consistent with the Government of Ontario policy of putting conservation first</u> as adopted in its 2013 Long-Term Energy Plan, Achieving Balance.*

8. The directive itself mandated;

> *ii. that the DSM Framework shall enable the achievement of all cost-effective DSM and more closely align DSM efforts with CDM efforts, as far as is appropriate and reasonable having regard to the respective characteristics of the natural gas and electricity sectors.*

9. Balanced consideration of this policy history is important if parties are going to cite "government policy" in support of their positions on the future of ratepayer funded DSM.

   (a) The previous government, through its 2014 directive, indicated that DSM should be preferred to investment in utility infrastructure where DSM is more "cost effective" (presumably than expansion or reinforcement of utility infrastructure), and thus would reduce consumer energy bills (from what they otherwise would be).

   (b) The current government, through its "Environment Plan", has indicated a preference for DSM where it can *"simultaneously reduce emissions <u>and lower energy bills</u>".* [Emphasis added.]

10. ***Government policy related to ratepayer funded DSM is <u>not</u> to reduce the consumption of natural gas, per se, or to increase DSM spending to realize a GHG reduction target. Rather it is to encourage ratepayer funded DSM <u>where such will lower energy bills</u>, while reducing emissions and thus contributing towards achievement of broader GHG reduction targets.***

11. It is also critical to consideration of a refreshed DSM Framework that unlike when the current DSM Framework was formulated, we now have a legislated carbon price. The Government (first Ontario, and now Federal) has decided, as is its mandate, how carbon will be valued in Ontario. That value is already built into the price of natural gas. To the extent that determining a value for avoiding GHG emissions resulting from natural gas consumption ever was a task for the OEB, such is indisputably no longer the case. Natural gas pricing now already includes the societally determined value of avoiding carbon emissions.

12. In the case of large volume energy intensive trade exposed industrial gas consumers (LVEITEICs), all carbon abatement policies, federal or provincial, have and continue to recognize the need for separate, flexible compliance obligations and options. In all cases, LVEITEICs are mandated to address GHG emission limits in the manner that is most suited, and economic, for their particular process requirements. LEVITEICs are addressed

differently, and uniquely, from other customers in government GHG emissions policy and regulation.

13. LVEITEICs are subject to more direct GHG emission reduction requirements than other end use energy consumers. Ontario LVEITEICs are currently directly subject to the Federal Output Based Pricing System (OBPS) for GHG emissions, and will likely be directly subject to the Federal Clean Fuel Standard (CFS) under development. In this context, layering on a ratepayer funded DSM requirement for these customers is not only redundant, it can be counterproductive, clashing with the objectives and purposeful design of these other, LVEITEIC specific GHG emission limits, compliance requirements, and associated incentives where made available.

14. Requiring Ontario LVEITEICs to pay in natural gas delivery rates funds from which some 30% to 50% are consumed in utility administrative, shareholder incentive, and lost revenue compensation costs inefficiently diverts funds from more effective use in meeting otherwise mandated GHG emission limits through energy efficiency investments.

15. It must also be considered that LVEITEICs are generally GHG emission regulated based on overall “carbon intensity” rather than isolated reductions in the use of any single fuel. There are instances in which GHG emissions could be reduced more with <u>in</u>creased gas use by these industrials.

16. All of which leads to the conclusion that ratepayer funded DSM programs for the large industrial gas consumers represented by IGUA is of limited value, may well undermine parallel GHG emission regulatory policies applicable to these entities, and in any event should be differently considered from DSM programs for other customer groups.

Ontario DSM Framework Goals and Objectives

17. IGUA addresses the 2nd of the 3 issues identified by the Board for consideration in this Phase 1 (*“Goals and Objectives”*) 1st, on the basis that goals and objectives should inform principles.

Goals and Objectives: What should be the primary goal(s) and objective(s) of the post-2020 DSM Framework?

18. ***As carbon is now priced, the focus of DSM should be to assist customers to reduce bills by removing barriers to conservation.***

19. Bill reduction is listed as one of the 3 goals of the current DSM Framework. The Board states in the current DSM Framework that *"customers who participate in DSM programs should see a decrease in their energy bills"*. IGUA continues to endorse this goal.

20. The second goal set out in the current DSM Framework is to *"[p]romote energy conservation and energy efficiency to create a culture of conservation"*. IGUA does <u>not</u> believe that this is an appropriate standalone goal for ratepayer funded DSM.

21. The OEB is an economic regulator, not an agency charged with broadly effecting social change.

22. IGUA acknowledges that as an economic regulator, the OEB must be cognizant of, and operates as an agency of the Government within the broader context of, government policy. However, the OEB has a particular mandate as the economic regulator of certain aspects of the province's natural gas and electricity sectors. This is why, to the extent that the DSM Framework is intended to promote energy conservation and efficiency *"in accordance with the policies of the Government of Ontario"*, this is just one of several of the Board's objectives, and to the extent that it is considered it must be considered with *"regard to the consumer's economic circumstances"*.

23. Promoting natural gas conservation <u>where it lowers customers' energy costs</u> is fully in line with the Government's policy, the Board's role as the "economic regulator" of natural gas supply in the province, and the Board's statutory objectives.

24. Going beyond removing barriers to "cost effective" (<u>for customers</u>) conservation with the aim of promoting (as opposed to supporting) *"a culture of conservation"* as a standalone objective goes beyond the Board's role as an economic regulator. The distinction between "promoting" and "supporting" is a matter of degree. The consideration of the Government's environmental policy should inform the Board's actions on DSM, but <u>not</u> dictate them.

25. In respect of the third goal articulated in the current DSM Framework – to *"[a]void costs related to future natural gas infrastructure investment"* - IGUA endorses investment in avoiding consumption where such is less expensive than building facilities to support increased consumption. What customer would not support this goal? This is simply prudent utility investment.

26. IGUA does not believe that this objective needs to be part of the DSM Framework. Rather it should be an element of the Board's review and approval of regulated gas distributors' investment plans, in the normal course and pursuant to the Board's statutory objectives and role as economic regulator in relation to natural gas.

27. Where investment in avoiding gas consumption is more cost effective than investment in building facilities to support increased consumption, it would be imprudent for the gas distributors not to choose the former investment. Any customer would endorse the less expensive investment option provided that the energy service outcome is functionally equivalent. Ensuring such is simply sound economic regulation, DSM Framework or no.

28. ***IGUA submits that there should be one objective for the continuing DSM Framework; assist consumers in managing their energy bills through the reduction of natural gas consumption.***

Principles: Do the guiding principles from the 2015-2020 DSM Framework remain appropriate? If not, what principles are needed and why?

29. The particular perspective of LVEITEICs on ratepayer funded DSM is informed by the following considerations;

(a) Energy costs are a significant input for LVEITEICs. LVEITEICs are intrinsically motivated by competition for outputs and capital to, and in fact do, pay attention to how much gas they consume. If there are "cost effective" (in the real world sense, from the customer's perspective) ways to save on (carbon loaded) gas costs LVEITEIC's will do so on their own.

(b) LVEITEICs understand their businesses, including their specialized equipment and gas consumption related processes, better than gas utility representatives do. This is not meant to be a criticism of the utilities. LVEITEICs don't deliver gas. Natural gas utilities don't manufacture chemicals or steel or engage in mining or other industrial activities or processes. The extent to which gas delivery utilities can usefully inform cost effective (from a customer perspective) energy efficiency initiatives by LVEITEICs is limited.

(c) LVEITEICs have rigid, commercially and competitively driven, capital allocation and investment hurdles. An energy efficiency initiative that pays back over several years or longer is difficult to justify as "cost effective" under competitive pressure for capital. Attempts to reduce or remove this hurdle merely transfer funds from one LVEITEIC to another (making the former's business that much more challenging).

(d) While mass market DSM programs present "cookie cutter" DSM solutions that customers may not otherwise pursue and which any customer should be able to take advantage of (and thus save money from), LVEITEIC DSM programs are customized to a specific customer. In this context forcing these customers to pay for utility administration and shareholder incentives for an efficiency initiative that is otherwise "cost effective" (on the economic terms relevant to the customer) simply diverts funds from efficiency, or, for non-participating customers, forces cross-subsidies from efficiency leaders to efficiency laggards. (Evidence from previous OEB DSM proceedings indicates that the legacy Union Gas DSM program diverts 30% or more of the amount paid for DSM by LVEITEIC's in rates from actual energy efficiency spending.)

(e) The value of DSM initiatives for LVEITEICs should be evaluated based on whether, properly costed, they save <u>the customer</u> money. If customers are better off paying for DSM programming than foregoing DSM programming, then any rational customer with sufficient knowledge would support, and participate in, such programming.

(f) The DSM costs and benefits for LVEITEICs must be evaluated over a practical time frame. Up front spending for savings over 20 years is not a tenable economic horizon for LVEITEICs.

(g) Customer specific cost effectiveness considerations must include <u>all</u> costs borne in rates, including program budgets, shareholder incentive payments, and lost revenue (LRAM) recoveries.

30. Informed by these considerations, IGUA's comments on the guiding principles from the current DSM Framework are as follows:

(a) *Principle: Invest in DSM where the cost is equal to or lower than capital investments and/or the purchase of natural gas.*

No rational customer would disagree with this principle. As noted above, however, LVEITEIC's do not evaluate investments in terms of a decade or longer time horizon, or broader societal benefits. The articulation of this principle in the current DSM Framework, which references avoided natural gas costs on a life-cycle basis, is inapplicable to LVEITEIC investments.

In respect of utility investments, this articulation does make sense even from an LVEITEIC perspective, as in this context it speaks to potentially reduced delivery rates as a result of investment in energy efficiency. As noted above, however, IGUA does not believe this is a DSM Framework issue so much as a standard prudent utility investment issue.

(b) *Principle: Achieve all cost-effective DSM that result [sic] in a reasonable rate impact.*

This principle is intended to address customer classes where it is anticipated that there will be non-participants, and thus net cost increases for natural gas use for a significant number of customers as a result of ratepayer funded DSM. The legacy Union Gas DSM program for LVEITEICs is a self-directed program where there are no non-participants. In the context of custom DSM programs, there should be no net cost impacts. Rate impacts from LVEITEIC DSM are reasonable only where the DSM program drives savings for the customer that offset the DSM costs in delivery rates paid by that customer.

(c) *Principle: Where appropriate, coordinate and integrate DSM and electricity CDM efforts to achieve efficiencies.*

Most gas LVEITEICs are also large volume electricity consumers. IGUA agrees with this principle.

(d) *Gas utilities will be able to recover costs and lost revenues from DSM programs.*

Gas utilities will not, and should not be expected to, engage in DSM programs (other than in the context of prudent utility investment programs) if this were not the case. From the LVEITEIC perspective, the important consideration related to this principle is that <u>all</u> costs recovered by gas utilities in rates – DSM program costs, shareholder incentives and lost revenue recoveries – must be included in determining the cost effectiveness from the customer perspective of DSM programming.

(e) *Principle: Design programs so that they achieve high customer participation levels.*

This principle is intended to address customer classes where it is anticipated that there will be non-participants, and thus net cost increases for natural gas use for a significant number of customers as a result of ratepayer funded DSM. The legacy Union Gas DSM program for LVEITEICs is a self-directed program where there are no non-participants. To the extent that there are LVEITEIC's in rate classes other than those subject to the legacy Union Gas self-directed DSM program, there should be a principle which expressly articulates that forced cross-subsidy of industrial laggards in energy efficiency by industrial leaders is inappropriate and should be precluded.

(f) *Principle: Minimize lost opportunities when implementing energy efficient upgrades.*

IGUA agrees with this principle.

(g) *Principle: Ensure low-income programs are accessible across the province.*

This is not a principle that IGUA has a role in commenting on, save to say that IGUA recognizes the inclusion in all delivery rates of modest contributions from all customers towards supporting appropriately designed low-income DSM programs.

(h) *Principle: Programs should be designed to pursue long-term energy savings.*

While IGUA does not object to this principle, *per se*, it has been noted above that LVEITEICs have rigid, commercially and competitively driven, capital allocation and investment hurdles. An energy efficiency initiative that pays back over several years or longer is difficult to justify as "cost effective" under competitive pressure for capital. Attempts to reduce or remove this hurdle merely transfer funds from one LVEITEIC to another (making the former's business that much more challenging).

(i) *Principle: Shareholder incentives will be commensurate with performance and efficient use of funds.*

As with lost revenue recovery, from an LVEITEIC perspective <u>all</u> costs recovered by gas utilities in LVEITEIC rates – DSM program costs, shareholder incentives and lost revenue recoveries – must be included in determining the "cost effectiveness" for the customer of DSM programming.

(j) *Principle: Ensure DSM is considered in gas utility infrastructure planning at the regional and local levels.*

As commented above, while IGUA endorses this principle as any rational customer would, the extent to which gas use can be avoided more cost effectively than building for increased gas use is a consideration to be applied in evaluating the prudence of utility investment proposals, and does not require separate identification in a DSM Framework.

Scope: Should the OEB undertake major revisions to the 2015-2020 DSM Framework or focus on specific updates that are more minor in nature?

31. LVEITEICs have been separately addressed in both the current DSM Framework and the utility DSM programs developed in accord therewith. It may be that re-examining DSM programming for LVEITEICs would not, in and of itself, require a major framework review and revision.

32. However, IGUA understands that some other parties will be advocating the need for a major framework review, and potentially an attendant significant framework revision. IGUA agrees that it is appropriate for the Board to take a careful look at the premises underlying

the current framework and to consider, in a carbon priced context, whether major revisions are required or appropriate for the next DSM Framework.

33. The current DSM Framework has entailed very significant DSM spending and rate recoveries, and the next framework will no doubt do so again. SEC has suggested that current DSM costs represent approximately 7% of distribution rate revenues, totaling as much as $150 million of ratepayer contributed funds in 2019. If DSM spending at this level, or potentially higher, is going to continue, careful consideration of the appropriateness of the current DSM Framework is warranted.

34. IGUA also anticipates, and sympathizes with, a utility concern regarding the timing of the outcome of this review process, and the need to plan for 2021 DSM program delivery in early 2020, if not late 2019.

35. The Board should take the time required to collect and carefully review considered input from all interested and affected parties. That is not reasonably possible to do, properly, by the end of the summer.

36. In deference to utility concerns regarding timing, and rather than rushing to an unfortunate and ill-considered conclusion that would obtain for another 5 (or more) years, IGUA endorses extension by the Board, now, of the current DSM Framework for one year; through the end of 2021. This will allow the utilities to properly plan for DSM programming in 2020 while allowing the Board, and interested parties, the time required for proper consideration of the appropriate future DSM Framework.

37. IGUA also urges the Board to consider, for the next phase of this process, a more proportionate allowance for recovery of costs by eligible parties.

38. Like other responsible intervenors, in order to participate in this Phase 1 in an informed and responsible manner IGUA has taken the time and completed the work necessary to;

(a) properly brief its members on what has become an extremely complex DSM Framework design and implementation procedure;

(b) seek input from members on concerns and appropriate positions;

(c) consult with other interested parties on their views and positions; and

(d) carefully consider and develop these Phase 1 submissions.

In doing so IGUA has incurred costs significantly in excess of those deemed eligible for recovery in the Board's May 21st letter.

39. The Board requires parties representing members or other constituents to consult with their constituents in formulating positions and obtaining instructions, and properly so. The constrained cost recovery eligibility criteria attached to Phase 1 of this process do not adequately provide for such activities.

40. IGUA has nonetheless undertaken the required and appropriate consultation to inform its work in this Phase of the process. For subsequent phases of the process IGUA would urge the Board to consider either allowing parties to claim all eligible costs subject, as always, to review by the Board for reasonableness, or at least to provide more appropriate eligibility guidelines for such subsequent phases than have been provided for this Phase 1.

ALL OF WHICH IS RESPECTFULLY SUBMITTED by:

[signature]

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June 27, 2019

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