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4 December 2008

Ms. Kirsten Walli, Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON
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Dear Ms Walli:

**Re: Gas DSM Framework Consultation Issues**

Further to our discussions with Board staff during our meeting on November 26th, we write to offer further detail on several matters that we suggest be considered in the formulation of gas DSM guidelines.

**Objective of DSM:**

We stress the need for the Board to enunciate the guiding objective that LDCs should be pursuing ***all cost effective DSM*** (subject only to the avoidance of undue rate impacts and undue inequity).

**Overall Budget:**

Recent economic potential analysis conducted for Union Gas indicates that an approximate 30% reduction in gas use is economic during the next 10 years, however the LDCs have targeted less than one-fifth of the potential. While GEC would suggest that all this potential should be achieved, we recognize that the tension between that goal and ratepayer concern over short term rate impacts is not insignificant. Further, the LDCs will be disinclined to seek significant budget increases as they will be resistant to significantly heightened expectations for performance. Accordingly, enunciation of a budget guideline would dramatically ease the debate and complexity in the DSM planning and approval process.

Utilities such as Gas Metropolitan and Vermont Gas were already spending over 2% of total revenues some years ago. We suggest that ramping up to 3% of the total value of LDC services and customer commodity costs (both system gas and customer purchased gas) over the next 3 year period would be entirely appropriate, would avoid undue rate impacts, and would be in keeping with government policy.

**Shareholder Incentives:**

GEC submits that while the value of market transformation has been recognized by the Board, LDCs and intervenors, very limited development of this area has so far occurred. While a traditional incentive scaled directly to savings (or TRC) should be preserved to provide an

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incentive for short-term achievement, market transformation requires attention, including improved development of MT incentives.

For the traditional resource acquisition savings GEC submits that the Board should spell out general objectives that a shareholder incentive formula should achieve and allow the parties to negotiate the details of an appropriate curve and target for each utility. We offer the following suggested guidelines.

a) Reward curve and ratchet formula

The utilities seek a straight line reward curve analogous to that offered to the electricity LDCs. This ignores the fact that there are only two gas LDCs both of which have a track record on DSM which enables the development of a more effective, less wasteful, reward structure. The Board should indicate that shareholder incentives should not be available for mediocre performance and that the available incentive should be focussed on rewarding excellence. GEC suggests a threshold for the commencement of shareholder reward at 75% of the reasonably achievable level (the target). The target should be set using a starting point and ratchet formula based upon analysis of the achievement to date, the conservation potential studies and the available budget.

b) Use of Actual Results

In the past LDCs have sought to clear the SSM based on forecast assumptions rather than actual evaluation results. This creates an incentive to avoid recognition of lower measure performance prior to target setting. The need for clearance based on forecast assumptions was understandable when there was less experience with measures, programs and evaluation. Now that the utilities have had several years to conduct evaluation studies and make the major changes to inputs that resulted, there is no need to maintain this risk reduction approach.

c) Cap

A cap curtails the acquisition of cost-effective DSM. With a suitably demanding SSM curve, a threshold, and use of actuals to clear the account, the Board could be assured of system and societal benefits far in excess of reward payments and there is no reason to curtail such efforts with an arbitrary cap.

d) Shareholder incentives for Market transformation

The existing guidelines state that these incentives need to be developed on a case-by-case basis, and do not lend themselves to formulaic approaches, and we agree. However, choosing programs well, defining the goals and metrics for measuring those goals well, will facilitate the setting of well-designed shareholder incentives. Comments below are intended to support better choices of MT programs and better definition of the programs, all of which will facilitate evaluation and shareholder incentives.

**Market Transformation**

a) Definition

The definition of market transformation is adequate for a general definition, but due to implementation problems experienced over the last two years, we believe some elaboration would significantly benefit the orderly development of these programs. For example, the Board should make clear that MT is not simply a new name for education or training activities. These are worthy and necessary activities as elements of individual programs or the portfolio as a whole, but they are not programs *per se*.

Further clarity would be provided by identifying lost opportunity markets as the best candidates for initial MT program development – those where equipment is being replaced or new buildings are being built. This facilitates the definition of the program goal, and the primary metric that should be used for measuring success – increasing the market share of the efficient choice. While market transformation can be applied to discretionary retrofit situations, it is more difficult to define and measure, and less urgent, and therefore should be deferred until all parties have greater experience with MT.

b) MT Budget

The MT budget is roughly 5% of the total resources currently available to the LDCs, or just over $1 million each. However, MT programs are understood to be more costly than traditional programs. The benefit of course is that they are concluded in just a few years and produce ongoing benefits without program spending continuing indefinitely. GEC submits that the MT budgets need to grow significantly as a fraction of the total budget over the course of the next multi-year plans. In 2006 GEC's witness produced a detailed 3 year plan for Enbridge which had MT program spending growing to roughly 40% of the total budget by the third year, a range which remains appropriate. It should be noted that this could include redesigning certain existing lost opportunity programs into market transformation programs – and therefore does not necessarily imply the development of large numbers of entirely new program areas.

c) Need for concentrated focus

In their 2007-2009 Plans Union and Enbridge did propose MT programs. Union consulted with intervenors and proposed one well-defined program in a lost opportunity market – a wise choice. This has allowed focussing all of the limited resources on this one program and has seen market share grow and prices for the product begin to decline already. In contrast Enbridge did not consult and launched a dozen poorly defined "programs" – which squandered the limited budget by spreading it too thinly and produced very little in the way of results, as confirmed by Enbridge's 2007 Auditor. The utilities should be required to focus their attention on a small number of MT projects and do them well rather than dilute the effort. The problem of poor program design and definition is addressed both by clearer definition of MT as described above, and in the Filing Guideline comments below.

**Evaluation Role**

While the LDCs should be granted a reasonable forward-looking research budget, responsibility for appointment and the setting of the scope and terms of engagement for evaluation work should be removed from the LDCs. The LDCs have a clear conflict of interest in this matter. Throughout North America evaluation work in is increasingly being conducted by independent third parties to avoid this conflict. The evaluation consultant (who could potentially also be the auditor) should be retained by the Board. The EAC should continue to advise the evaluation consultant on priorities and act as a means to maintain transparency for stakeholders.

**Filing Guidelines**

All parties have agreed for years that attaining clarity, and where possible agreement, at the outset of any program is preferable to rancorous debate after the fact where achievements are hard to measure because assumptions or definitions were ambiguous to start. However this can only be achieved with adequate information, and the value of prefiling guidelines.

The Board should require LDCs in their filings on their DSM programs to describe the total market that each program seeks to influence. This applies to all programs although is particularly useful for lost opportunity and MT programs. In general, elements that should be addressed when describing each program include:

- Definition of the technology being promoted, and the base case efficiency level
- Description of the total potential market for the measure
- Description of the primary barriers preventing higher uptake (eg. high first cost, split incentives, trust of a new product, etc.)
- Description of current sales in the market
- Description of the measures the program will include to address each of the barriers (education, training, financial incentives, etc)
- Participation estimates
- Evaluation proposed for each program

For market transformation programs the Generic Decision already includes useful filing requirements which should be reiterated, along with the following.

- The goal of the program should be spelled out – that is, a definition of what 'market transformation' will mean for this technology, and a time frame in which the program will seek to achieve it;
- How the program will be evaluated with suitable metrics identified.

Sincerely,

David Poch

Cc: Michael Bell, Beverly Jaffray, Takis Plagiannakos