programs. Having to do a free rider study for each program to demonstrate the free rider level each time a CDM plan is approved by the Board is too costly, especially during these early years, and when LDCs are just getting getting going with CDM, and the programs are relatively small.

Free rider studies tend to be carried out after the CDM program has been delivered, introducing difficulties for study design into the analysis. It is difficult to get program participants to participate in these studies resulting in small sample sizes, and the act of participating in a particular CDM program biases the responses of the participants when responding to questions that try to extract free rider information. Trying to minimize these problems adds more complexity and therefore more cost and time to doing these studies. As well, intervenors will likely disagree on the quality of these studies leading to more cost and effort in determining appropriate levels.

A pragmatic approach

The OEB needs to take a pragmatic approach to the free rider issue, as it has begun to do in setting out default free rider rates in the TRC Guide. To extend this, the Board could:

- place emphasis on study at the front end of the program, during program design, for the LDC to obtain improved market intelligence on what customers are doing absent the programs and what they are likely to do if a particular one is offered.

- require free rider studies on individual LDC programs that exceed a certain threshold, which could be specified in either anticipated TRC benefits, or in program spending. For example, a free rider study might be required to support any program with anticipated net TRC benefits in excess of 1.5 million dollars.

- request a third party, such as the Conservation Bureau of the OPA, to undertake research that would encourage the refinement of the default free rider estimates. Such research could include:

    - conduct free rider studies for a sample of smaller and common programs, and use these results to improve the 'rule of thumb' numbers in the TRC Guide, to be available for use by all LDCs going forward. Going forward LDCs should be allowed and encouraged to use the existing free rider levels until they are replaced with better information.

income to buffer interruptions or face unexpected expenses of low-income households in Ontario is around $200 per year[8], forcing these consumers to make decisions on a regular basis between heating and eating. Efficiency upgrades are beyond these basic needs considerations. Therefore the rule of thumb estimate for programs specifically targeted at low-income consumers ought to be zero.

The regulatory burden is reduced if the Board encourages LDCs to address free rider issues at the planning stage, and to use the 'rules of thumb', or alternative values if LDCs feel different values are justified. Reducing the regulatory burden will help LDCs to focus efforts on program delivery and achieving savings.

Further, the approved free rider rate should be accepted as the basis of the post-implementation program and portfolio evaluation. Refinements or changes to free rider values arising from any evaluations should be adopted on a going-forward basis, not retroactively. This reduces the regulatory risk that LDCs face. There is no evidence of LDCs 'gaming' the system to date, and the presumption should be that LDCs are interested in delivering cost-efficient and effective CDM to their customers. For all but the largest utilities, the incentives for gaming are small.[9]

Allocation of limited resources

LIEN wishes to encourage utilities to spend as many of their CDM dollars allocated to low-income programs as possible on achieving savings for these customers, and therefore, supports reasonable rules of thumb, albeit not theoretically perfect, that provide an appropriate balance between the level of regulatory scrutiny for a particular program and dollars spent on achieving savings.

The cost and efficiency implications of requiring LDCs to demonstrate free rider levels for each of their CDM programs can outweigh the benefits that these studies will accrue, especially for low-income

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[8] Email from Rene Morissette, Assistant Director – Research, Business and Labour Market Analysis Division, Statistics Canada, to Mary Todorow, ACTO, December 17, 2004. $200/year refers to dollars available in 1999. It is from the study done by Statistics Canada, in Perspectives on Labour and Income, *Families on the edge*, July 2002. Catalogue no. 75-001-XIE. With higher energy prices, the dollars available in 2005 are likely to be lower. StatsCan plans to update the study in 2006-07.

[9] Only eleven LDCs have applied for post-third tranche spending in 2006. (**http://www.oeb.gov.on.ca/html/en/industryrelations/ongoingprojects_EDR_appinfo.htm as viewed 2005-11-30**). The largest request is from Enersource for $1,525,000, and the average of the eleven is $318,000. Assuming these dollars can be transformed into net benefits in the order of 3 times the size, and the 5% SSM rate on TRC, the average potential SSM reward is less than $48,000. Further, it is not clear that all of these utilities will even be applying for an SSM. At least one has indicated it will not be. This suggests little room for 'gaming', even if the LDCs were so inclined.