

**ONTARIO ENERGY BOARD  
2006 ELECTRICITY DISTRIBUTION  
RATE HANDBOOK HEARING**

**REPLY ARGUMENT  
OF POLLUTION PROBE**

February 28, 2005

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## **Introduction**

In this reply argument, Pollution Probe will make submissions with respect to two general topics. First, Pollution Probe will respond to various intervenor arguments on conservation and demand management (CDM). Specifically, Pollution Probe will respond to the submissions of the Consumers Council of Canada (CCC), the School Energy Coalition (SEC) and the Canadian Energy Efficiency Alliance (CEEA). Pollution Probe respectfully proposes to address a number of what it sees as problems or errors in those submissions.

Secondly, Pollution Probe will respond to the submissions of the Industry Task Force on Distributed Generation made in relation to Section 10.6 of the draft Rate Handbook. Pollution Probe will support those submissions.

## **Reply Submissions on Conservation and Demand Management**

### *Reply to the Submissions of Consumers Council of Canada*

The Consumers Council of Canada (CCC) is opposed to the establishment of Shared Savings Mechanisms (SSMs) which would link the profits of Ontario's electric utilities to their success at reducing their customers' bills through energy efficiency. According to the CCC, SSMs are not necessary to motivate the electric utilities to promote energy efficiency.

It is Pollution Probe's submission that the CCC's argument on this point has simply failed to address the important rationale for SSMs as accepted and described to the Board by witnesses Messrs. Goulding, Chernick, Gibbons and Heeney, namely, that the establishment of SSMs will lead to significantly more effective CDM programmes and hence significantly larger bill savings for customers.

The very large customer benefits deriving from SSMs were articulated by Mr. Gibbons in his written and oral evidence:

1. Between 1995 and 1998 inclusive, Enbridge Gas Distribution failed to achieve its conservation targets, by shortfalls ranging from 19% to 70%. As a result, the OEB established an SSM for Enbridge commencing in 1999. After the SSM incentive was established, Enbridge exceeded its targets in the years 1999 to 2001 by amounts ranging from 21% to 67%.
2. Unlike Enbridge, Union Gas does not have a shareholder incentive. As a consequence, the positive impact of a shareholder incentive can also be seen by comparing Enbridge's and Union's forecast bill savings for 2004. Specifically, Union's forecast bill savings are 56% less than those of Enbridge.

3. As Mr. Gibbons' testimony revealed, the benefits of a SSM can be seen by comparing the cost-effectiveness of Enbridge's conservation programmes with those of U.S. electric utilities. Enbridge's ratio of TRC net benefits per dollar of utility spending is 7 to 1, whereas the corresponding ratios for Efficiency Vermont, the Massachusetts electric utilities and Southern California Edison are all less than 2 to 1. There appears to be a very large gap between "excellent" and merely "adequate" conservation programmes.
4. Finally, as Mr. Gibbons noted, a SSM with a 5% incentive rate will generate incremental net bill savings for customers as long as it motivates the utilities to increase the gross bill savings of their CDM programmes by at least 5.3%.

The CCC failed to introduce any evidence in this hearing contradicting or even addressing these points. The evidence of the expert commissioned by the Board at CCC's request (Mr. Goulding) supported the concept and prospective benefits of a SSM, contrary to the position of the CCC. Finally, the CCC declined to cross-examine Mr. Gibbons with respect to his evidence on the customer benefits of SSMs. Pollution Probe submits that the CCC's position is therefore not supported on the evidence.

### *Reply to the Submissions of the School Energy Coalition*

#### Proposed Consultative

In its February 14, 2005 submissions the School Energy Coalition (SEC) proposed the establishment of a gigantic multi-stakeholder consultation process to review CDM programme design. [paragraphs 313 to 320]

Pollution Probe is strongly opposed to this proposal for the following reasons:

1. Pollution Probe is philosophically opposed to the micro-management of CDM programme design by the OEB and/or intervenors. Pollution Probe believes that establishing the right overall incentive framework through a LRAM and SSM is a more effective approach.
2. Pollution Probe does not believe that the proposed process will be productive or cost-effective. On the contrary, Pollution Probe believes that it would lead to a waste of ratepayer money and would seriously delay CDM programme implementation.

#### Shared Savings Mechanism (SSM)

The SEC's February 14<sup>th</sup> submission, in paragraph 341, suggests that Mr. Gibbons does not really support his proposed SSM incentive rate of 5%. This assertion by SEC is, with respect, completely mistaken, as is demonstrated, *inter alia*, by Mr. Gibbons' oral evidence in response to Mr. Shepherd's cross-examination.

“Mr. Shepherd: So the theory being, well, you’re reducing the customer’s bills, so if you give 5 percent of the reduction to the utility, that’s not so bad; right?”

Mr. Gibbons: I think it’s a very good deal for the customer.” [Transcript Volume 11, para. 562, 563]

In its February 14<sup>th</sup> submission, the SEC is proposing an alternative SSM formula. One effect of the alternative SSM formula proposed by SEC would be that, in any given year, no more than 50% of Ontario’s electric utilities could earn a SSM reward. [paragraphs 348 to 353]

It is Pollution Probe’s submission that the SEC proposal, with that effect, would be contrary to the public interest for the following reasons.

1. The SEC proposal does not put the utilities’ supply-side and CDM activities on a level playing field. On the supply-side, the OEB’s rules ensure that all of Ontario’s utilities will make reasonable profits if they achieve their targets. However, under the SEC proposal, only 50% of Ontario’s utilities, at most, could earn a CDM profit award even if they all implement aggressive and cost-effective conservation programmes. This is neither fair nor economically rational, and it would bias the utilities’ incentives toward supply rather than conservation.
2. Under the SEC proposal, eligibility for a SSM reward would be a function of a particular utility’s performance relative to the performance of the *average* utility during the same time period. As a result, it would be impossible for a utility to know in advance the level of bill savings, cost-effectiveness or customer participation that it must achieve in order to earn a SSM reward. This would increase the risk and uncertainty associated with the promotion of energy conservation, and make it more difficult for utilities to implement conservation, instead of facilitating and encouraging conservation.

Pollution Probe therefore submits that SEC’s proposal would be a confusing and disabling approach to SSM, and should not be adopted.

*Reply to the Submissions of the Canadian Energy Efficiency Alliance*

According to the Canadian Energy Efficiency Alliance’s (CEEA’s) February 14<sup>th</sup> submission, an incentive which is simply a function of kWh savings would have a similar effect to an incentive which is equal to 5% of the TRC net benefits:

“For the 2006 test year, an incentive of 5% of total net TRC benefits would not create undue pressure on rates, and would give a message to LDC management

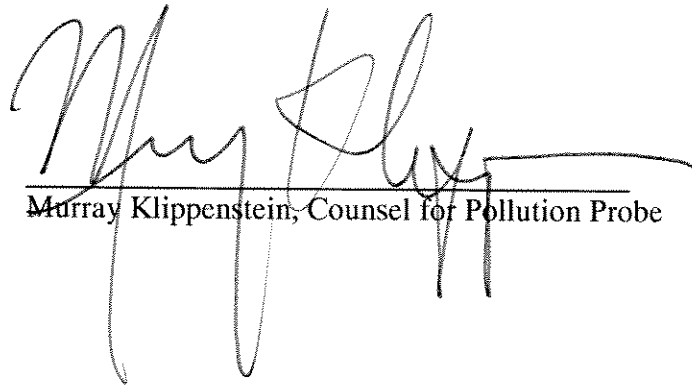
that CDM is a useful and profitable activity for them to undertake. An incentive of 0.0025 dollars per kilowatt-hour would have a similar effect.” [page 12]

Pollution Probe submits, with respect, that this claim is not accurate. The “5% of TRC” formula gives the utilities an incentive to minimize their CDM costs per kWh saved, and only provides a SSM reward if the programme’s benefits are greater than its costs. The kWh incentive, on the other hand, would not provide the utility with an incentive to minimize its costs. Moreover, a kWh incentive would provide the utility with a conservation reward even if the programme’s actual costs are greater than its benefits – a perverse incentive.

**Reply Submissions on Section 10.6 of the draft Rate Handbook**

Pollution Probe supports the February 14<sup>th</sup> submissions of the Industry Task Force on Distributed Generation with respect to section 10.6 of the draft Rate Handbook.

ALL OF WHICH IS RESPECTFULLY SUBMITTED BY



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