KLIPPENSTEINS

KLIPPENSTEINS
BARRISTERS & SOLICITORS
160 JOHN STREET, SUITE 300,
TORONTO, ONTARIO M5V 2E5
TEL: (416) 598-0288
FAX: (416) 598-9520

November 21, 2008

BY COURIER (2 COPIES) AND EMAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, Suite 2700
Toronto, Ontario M4P 1E4
Fax: (416) 440-7656
Email: boardsec@oeb.gov.on.ca

Dear Ms. Walli:

Re: Pollution Probe – Written Comments
EB-2008-0352 – CDM Input Assumptions

We write to provide Pollution Probe's comments regarding the above noted matter. In short, Pollution Probe has reviewed and supports the submissions of the School Energy Coalition dated November 11, 2008 and the Green Energy Coalition dated November 13, 2008. Pollution Probe also provides a specific submission about one of the OPA's assumptions to illustrate the issues and concerns raised by SEC and GEC at this time.

Pollution Probe submits (or intends to submit in another proceeding) that, upon review, the Board should *reject* the Ontario Power Authority's ("OPA's") proposal that all conservation and demand management ("CDM") programs should be assumed to have a free-rider rate of 30%. Pollution Probe's reasons for this submission are:

1. As the OPA has noted, free-rider rates are a "function of program design and delivery".[1] Accurate free-rider estimates for CDM programs can thus only be determined by reviewing CDM program designs and delivery mechanisms on a case-by-case basis. It is only then that one can assess the respective impacts on free-ridership rates. Unfortunately, the OPA appears to have provided to date minimal or no empirical or logical support/basis to justify its proposed universal 30% free-rider rate for all CDM programs.

2. For example, in defense of the OPA's proposed universal 30% free-rider rate, the OPA states that "in Natural Gas Demand Side Management in Ontario, 30% is the free-rider rate for custom projects."[2] However, Pollution Probe believes that it is necessary for the Board to consider the following contextual facts and factors. First, even if the 30% free-rider rate were appropriate for *gas custom* projects, it is

[1] *OPA Measures and Assumptions List* dated February 15, 2008, at pg. 1
[2] *Ibid.* at pg. 2

unclear how this provides empirical or logical support for the OPA's assertion that it is also an appropriate free-rider rate for *all electric* CDM programs. Second, there are serious questions about whether 30% is even appropriate for gas custom projects. A recent report prepared by Summit Blue for Enbridge Gas Distribution and Union Gas recommended the following free-rider rates instead for the gas utilities' custom projects.

Free-ridership Recommendations[3]

Sector	Enbridge	Union	Total
Agriculture	40%	0%	18%
Commercial Retrofit	12%	59%	27%
Industrial	50%	56%	53%
Multifamily	20%	42%	26%
New Construction	26%	33%	28%
Total	41%	54%	48%

In fact, according to the Summit Blue Report:

> Free-ridership rates of near 50% are not uncommon in custom programs throughout North America. In a 2006 study Summit Blue performed for Alliant Energy, we found five programs out of 21 with free-ridership rates of above 40%. Summit Blue recommends that the utilities use the utility-specific total free-ridership rates of 41% and 54% as the best estimate of free-ridership.[4]

It is thus highly questionable as to whether 30% is an appropriate free-rider rate for gas custom projects, much less all electric CDM programs.

3. Furthermore, the adoption of a universal 30% free-ridership rate (which is itself questionable) will not motivate utilities to be cost-effective by taking steps to minimize a program's free-ridership rate.

Assuming that everything else is equal, a program is more cost-effective if its free-rider rate is lower. In the extreme, a program with a 100% free-rider rate will provide no net benefits to customers and the economy. The Board's should thus adopt practices and procedures which will motivate utilities to take all practical actions to minimize programs' free-rider rates in accordance with the Board's mandate to promote economic efficiency and cost-effectiveness.[5]

However, if the OEB instead adopts a universal 30% free-rider basis irrespective of program design or delivery, Ontario's utilities will have no incentive to

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[3] Summit Blue, *Custom Projects Attribution Study Final Submitted To: DSM Evaluation Union Gas Limited – A Spectra Energy Co. Enbridge Gas Distribution,* (October 31, 2008), at pg. 28.
[4] *Ibid.*
[5] See *e.g. Ontario Energy Board Act, 1998,* S.O. 1998, c. 15, Schedule B, s. 1(1).

minimize the actual free-rider rates of their programs, which could lead to two very adverse and problematic consequences. First the real savings produced by the utilities' CDM programs could be significantly reduced due to a failure to minimize free-ridership. Second, the Board could approve LRAM and/or SSM claims on the basis of CDM savings that actually don't exist (e.g. if the LRAM/SSM are calculated assuming a 30% free-rider rate when the actual free-rider rates are really about 100%). As a result, the Board could potentially approve significant wealth transfers from consumers to utilities on the basis of fictitious savings.

Pollution thus submits (or intends to submit in another proceeding) that the Board should reject the OPA's proposed 30% free-rider rate for all CDM programs in order to promote the best interests of Ontario's electricity consumers. This is an illustrative example of the issues and concerns raised in the submissions of SEC and GEC.

In light of the Board's mandate and all of the above, Pollution Probe submits that the Board still needs to require that the electric utilities be responsible for providing empirical and logical justifications to support the free-rider rates used to calculate LRAM and/or SSM claims. This would ensure that the best information is before the Board, and that this information can be properly examined and tested. However, to avoid needless duplication of effort with respect to the OPA CDM programs delivered by LDCs, the OPA should be encouraged to provide the electric utilities with its best empirical evidence of the actual free-rider rates of those OPA CDM programs (which, subject to Board examination and testing, can be used in lieu of information developed by the utilities themselves).

We trust these comments are of assistance, and please do not hesitate to contact the undersigned if you wish to discuss this matter further.

Yours truly,

Basil Alexander

BA/ba

cc: Colin Andersen, Chief Executive Officer, Ontario Power Authority, by email to colin.andersen@powerauthority.on.ca
Jay Shepherd, Shibley Righton LLP, by email to jay.shepherd@shibleyrighton.com
David Poch, Counsel for the Green Energy Coalition, by email to dpoch@eelaw.ca
Alison Cazalet, Policy Advisor, Ontario Energy Board, by email to alison.cazalet@oeb.gov.on.ca