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15 July 2010

Ms. Kirsten Walli
Secretary, Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto M4P 1E4

Dear Ms. Walli:

Re: EB-2010—0215 GEC comments on Proposed Conservation and Demand Management Code for Electricity Distributors

The GEC is pleased to offer the following comments on the draft LDC CDM code.

Shareholder Incentive:

GEC is very supportive of the Board's proposal to maintain a shareholder incentive for LDC CDM. We also very strongly support an incentive structure that has a threshold which must be reached before incentives begin. This structure serves to focus the incentive power on the marginal effort. That said, we have a few concerns and suggestions regarding the proposal:

1. We would suggest that the Board make explicit whether the incentive is an after-tax value and that it will not impact return on equity.

2. The Board has expressed interest in hearing the views of stakeholders on a possible program delivery efficiency incentive. GEC is concerned that a program delivery efficiency incentive could favour 'quick fix' short-lived measures. Accordingly, if such an incentive is to be considered it should be based on delivery cost *per lifetime* kWhr savings and per kW capacity saving *times measure lifetime*. Of course, as with the energy efficiency incentive, this must be net of free riders, with sufficient funding made available to support regular, accurate and independent assessments of free ridership. In addition, we suggest that the Board consider lifetime savings from 5 years of implementation. With only annual incentives, the LDCs will continue to be encouraged to disproportionately pursue measures that require little lead time or "market conditioning" to achieve significant penetration. While there is certainly significant value from near term savings, that perspective needs to be balanced against a longer-term perspective. Put another way, strategies that yield little savings this year, but lay

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the foundation for substantial savings 3, 4 or 5 years from now should be incented as well if we are truly to build a conservation culture in the province and achieve the deep levels of savings necessary to meet longer-term goals cost-effectively. At a minimum, the Board may want to consider excluding the cost of R&D and pilot programs designed to explore longer-term opportunities from the calculation of any delivery efficiency metric.

3. The proposed CDM SSM gives the LDCs no incentive to limit lost opportunities. A program delivery efficiency incentive – particularly one focused purely on a one-year horizon – could provide a further incentive to pursue inexpensive retrofit measures (i.e. cream skim) and leave more expensive lost opportunity measures behind. This is a problem because retrofit savings are always available whereas lost opportunity measures are often only available during limited windows of opportunity when buildings are being constructed or equipment is being purchased. If retrofit savings are not captured this year, they can just as easily be captured next year with no additional effort or cost. In contrast, a lack of investment in the efficient design of a new building could render many efficiency upgrades either inaccessible or cost-ineffective for decades. This suggests that the Board may wish to consider an incentive package that addresses the need to capture lost opportunities.

4. Finally, the Board has indicated that any such incentive payment would not increase the total incentive payment available to the companies. GEC is concerned that the shareholder incentive would therefore be reduced for energy and capacity savings. Thus, there is the potential for a net loss in societal value. We submit that it would be penny wise and pound foolish if the result is a reduction in program overheads that is less than the societal value of the foregone energy and capacity savings.

Sincerely,

David Poch