

Demand Side Management Working Group – Meeting #2

EB-2014-0134

June 18, 2014

These notes are intended to be indicative of discussion points and progress at the meeting, rather than an exhaustive summary of comments made by the working group members. They are provided to allow others to follow the progress of the working group.

Upon convening at 9:30 a.m.

1. Introductions

Board staff welcomed working group members and discussed the purpose and objectives of the second working group meeting.

2. Attendance

The following people attended the meeting:

- Fiona-Oliver Glasford, Enbridge Gas Distribution Inc. (EGD)
- Norm Ryckman, EGD
- Ravi Sigurdson, EGD
- Tracy Lynch, Union Gas Limited (Union)
- Alison Moore, Union
- Vanessa Innis, Union
- Brian Lippold, Natural Resource Gas Limited (NRG)
- Julie Girvan, Consumers Council of Canada (CCC)
- Jack Gibbons, Environmental Defence
- Ian Mondrow, Industrial Gas Users Association (IGUA)
- Kathleen Cooper, Low-Income Energy Network (LIEN)
- Julia McNally, Ontario Power Authority (OPA)
- Marion Fraser, Ontario Sustainable Energy Association (OSEA)
- Jay Shepherd, School Energy Coalition (SEC)
- Tony Pardal, Toronto Hydro-Electric Systems Limited (THESL)
- Steve Zebrowski, Veridian Connections Inc. (Veridian)
- Eric Martin, Ministry of Energy (observer)
- Emay Cowx, C2C Strategies (facilitator)
- Lynne Anderson, Takis Plagiannakos, Josh Wasylyk, Sarah Cole, Board Staff

3. Discussion of Guiding Principles

To begin Meeting #2, working group participants reviewed and discussed the overarching guiding principles (developed during Meeting #1) that the Board should consider as foundational to the new DSM framework. Although there was, no consensus from the first meeting, the intent of the discussion was to identify where there might be common ground among stakeholder meeting participants.

a) Summary of working group discussion regarding guiding principles

The original and suggested revised wording for each guiding principle is outlined below.

Changes to the first guiding principle from Meeting #1 were made to ensure that the Minister of Energy's directive is appropriately reflected in the wording.

- Updated: Enable the achievement of all cost-effective DSM, as far as is appropriate and reasonable having regard to the respective characteristics of the natural gas sector, marketplace and overall costs to customers

It was noted by several participants that a primary objective of the new DSM framework should be to encourage utilities to pursue and invest in DSM when it is the most cost-effective supply option in serving customers. It was proposed that investments in DSM should be considered when they are more cost-effective than investing in traditional capital projects and purchasing natural gas commodity. Environmental Defence did not believe this statement is consistent with the letter or spirit of the Minister of Energy's directive. Enbridge and Union cautioned, however, that any guidance provided from the Board regarding how the utilities should prioritize their investments needs to be very clearly outlined to ensure appropriate use of ratepayer funding. The utilities noted that as a first step, a study should be conducted to assess the potential for DSM in system planning, which could be considered through the upcoming Natural Gas Market Review. The following principle is tentatively added to the list:

- New: Natural gas utilities should invest in DSM where it is more cost-effective than capital investments and/or the purchase of natural gas

The impact on customers/rate payers was discussed as a critical consideration when evaluating the reasonableness of DSM expenditures. It was generally agreed that a principle should be included which ensures that rate impacts resulting from DSM activities are reasonable, such as:

- New: Overall, DSM costs and the subsequent rate impacts to customers should be reasonable

In an effort to ensure the principles of the new DSM framework align with the Minister's directive, it was proposed that a principle be added to address the need to coordinate and integrate natural gas DSM programs with Province-Wide electricity CDM programs, where appropriate. The following principle received general support:

- New: Where appropriate, coordinate and integrate DSM programs (including low-income programs) with electricity CDM programs

The updated guiding principles following Meeting #2 are listed below. These principles have received general support.

- (New) Natural gas utilities should invest in DSM where it is more cost-effective than capital investments and/or the purchase of natural gas
- (Revised) Enable the achievement of all cost-effective DSM, as far as is appropriate and reasonable having regard to the respective characteristics of the natural gas sector, marketplace and overall costs to customers
- (New) Overall DSM costs and the subsequent rate impacts to customers should be reasonable
- (New) Where appropriate, coordinate and integrate DSM programs (including low-income programs) with electricity CDM programs
- (New) Ensure DSM is included in natural gas distributor infrastructure planning at the regional and local levels

Due to time constraints the following guiding principles from Meeting #1 were not explicitly discussed during this session, but remain as part of the list going forward for input and consultation.

- Ensure incentives to utilities are available (endorsement of this principle was not unanimous)
- Remove disincentives to utility investments in DSM
- Remove barriers to cost-effective DSM
- Minimize lost opportunities to implement energy efficient upgrades
- Ensure DSM programs are available to low income customers
- Design programs to pursue deep energy savings

4. Integration

A sub-team of working group members (consisting of EGD, Union, OPA, THESL and Veridian) provided an update on their discussions related to addressing existing barriers to the integration of gas and electricity conservation programs.

The integration sub-team noted that opportunities to collaborate present themselves in various areas of program development/deployment: delivery, promotion, enabling, and design. It was stressed that the customer is a key and central component of any collaborative effort. The sub-team outlined a few challenges to collaboration, such as coordination among a large number of electricity distributors, different administrative and regulatory/approval requirements, and limits to information sharing, but they felt that opportunities exist where integration is possible despite identified challenges.

The working group agreed as a whole that the new DSM framework must enable integration and collaboration, consciously avoiding specific elements that might prohibit advancement in this area.

5. Inter-relatedness of DSM Targets and DSM Budgets

At the centre of the new DSM framework is the manner and timing in which both annual targets and budgets are developed. The working group discussed the significance and importance of how the development of these two elements should be ordered – whether targets that take into account all cost-effective, achievable potential savings that the market would not otherwise undertake on its own should be developed first, followed by budgets that are based on the funding level necessary to achieve those targets; or, developing an appropriate budget level first that takes into account rate impacts and acceptable overall costs, followed by the development of targets that are reasonable considering the amount of funding available.

No common ground was reached on the specific order of how targets and budgets should be established. However, it was noted by a number of working group participants that targets should be developed first in order to understand and quantify what is achievable and the overall goals for the new 2015 to 2020 term. Once targets are set, then budgets can be developed based on the details of those targets, such as the specific areas of the market that will be addressed, the types of programs considered and the incentives that will be offered.

Others noted that although developing targets first, followed by a supportive budget sounds logical, a critical review of how much rate payer funding is provided and how that funding should be applied, should be a key Board consideration; this is to ensure that any increase in funding will result in significant incremental benefits.

It was also cautioned that simply developing an overall gas savings target before a budget might not be an appropriate approach for the natural gas sector due to the differences in avoided costs between electricity (i.e. avoiding new generation) and natural gas (i.e. avoiding buying commodity). The lower avoided cost of the gas sector would make target setting challenging as the natural gas utilities do not rely on generation activities in the same manner as the electricity sector. However it was generally agreed that budgets and targets could be established through an iterative process, possibly beginning with the Board providing utilities with guidance as to the acceptable overall budget range upon which to develop targets.

6. DSM Budgets

The working group discussed what role the Board should take when determining appropriate DSM budgets. Very little common ground was reached by the working group in respect to how budgets should be developed, but many constructive comments were provided. A summary of those comments are outlined below.

It was noted by some participants that the Board would need to provide some guidance on the question of entertaining an increase to DSM budgets from their current levels, and the magnitude that would be acceptable.

Some participants commented that the Board should not pre-determine a DSM budget through policy setting, but allow utilities to propose a budget and submit associated DSM plans that enable the achievement of all cost-effective DSM, then determine the budget through an adjudicative setting. Many participants were of the view that budgets should be evidence-based and that the Board should welcome analysis on how much cost-effective DSM is available, allowing for the testing of proposed plans through a public hearing process.

It was suggested that the new DSM budgets may be appropriately based on benchmarks from the electricity sector and other natural gas jurisdictions, achievable potential studies, and market opportunities and constraints.

Working group participants agreed that the Board's new framework should not be developed in such a way as to micro-manage the operating details of utility-implemented DSM. Participants stressed the need for the Board to provide some directional policy guidance in several areas of the new DSM framework. Some parties requested that the Board provide guidance on a range of an acceptable budget amount that considers the components of the Minister's directive (i.e. enabling the achievement of all cost-effective DSM) and the Board's mandate (i.e. promote energy conservation, approve fair and reasonable rates). Environmental Defense did not believe it would be appropriate for the Board to establish a budget range in the absence of an assessment of the proposed utility DSM programs. Other participants noted that guidance would be helpful with respect to programs being made available for all sectors, parameters on how the budget should be allocated (e.g. equal allocation), and what type of programs should be the main focus of the utilities DSM plans (e.g. resource acquisition, performance-based, information/education, etc.). Once the Board has addressed these areas, it would allow the utilities to propose a reasonable plan that evolves throughout the course of the 6-year framework.

Many participants noted that the new DSM framework should allow for a transition period, including flexibility to address new programming approaches, current gaps in the market, and to address future policy direction from both the Board and other stakeholders. A suggestion was made that it may be appropriate to allow for incremental applications throughout the 6-year framework so that utilities might incorporate new programs to address infrastructure planning processes at the regional and local levels.

The working group agreed that in whatever manner the Board establishes the budget and its associated elements, the new DSM framework should allow for continuity and a smooth transition that avoids market shock.

7. What guidance/considerations should the Board provide the utilities?

The working group was asked to explicitly identify where the Board might provide appropriate and meaningful guidance to the utilities by way of the framework to ensure that key DSM objectives are addressed in their 2015 to 2020 DSM plans.

The following lists outline some goals that participants suggested be included in the new DSM framework.

Goals that were generally agreed to by the working group:

- The utilities should aim to provide programs to all private low-income, multi-residential buildings throughout their new DSM plans (consensus)
- The utilities should, throughout the term of the new DSM framework, develop a plan to expand low-income programs to all areas of the province (consensus)
- Recognition that part of 2015 will be a transition year since the plans won't likely be approved until the spring of 2015 (consensus)
- DSM should be more cost-effective than other utility capital investments (consensus)
- The utilities should consider pilot programs that operate under a pay-for-performance customer incentive model to inform future program development (consensus)
- The utilities should offer more data benchmarking, monitoring, and targeting programs that encourage continuous savings (i.e. programs that provide customers with greater information to help show areas of energy efficiency improvements) (consensus)

The following goals were discussed but substantive agreement was not reached:

- Utilities should be directed to propose (or transition to) DSM plans/programs that are incorporated in overall utility planning with a long-term goal of requiring the utilities to develop 5-year system plans that include conservation as an alternative (no consensus)
- DSM should be considered on a similar basis as a utility investment in rate base (no consensus)
- Recovery of DSM funding should not be administered on projected or assumed savings, but on actual results achieved or a pay-for-performance basis (i.e. reduced consumption levels) (no consensus)
- Utility DSM programming should transition to include more performance-based, data-driven programs, where results are realized through actual consumption reductions on a customer's bill (no consensus)
- DSM programs should be funded on a pay-for-performance basis where the Board sets an appropriate \$ rate/m³ saved (that incorporates budget recovery and an incentive amount/rate of return) which is payable based on verified cubic meter savings, as opposed to the utilities receiving full funding recovery at the outset of their program terms (no consensus)
- Utilities should focus DSM programming on areas where the utility can make real and impactful differences in transforming the market and influencing customers' decisions to adopt and implement new energy efficient technologies (no consensus)

- Targets may not be necessary and performance is based on a subjective evaluation performed by the Board following the completion of a program (no consensus)

8. What evidence should be used when developing plans/targets?

The working group discussed what pieces of evidence it felt were appropriate for the utilities to consider when they develop their DSM plans, including targets and budgets.

Working group participants agreed that both utilities should incorporate findings from their most recent potential studies in the development of new DSM plans (including the appropriate targets and budgets). Enbridge noted that it is currently undertaking an achievable potential study and expects it to be finalized by late-summer. Union noted that it updated its potential study in 2011 and is currently working on estimating the potential for specific programs they are considering for possible inclusion in their new DSM plan. It was agreed that the analysis in the potential studies should act as one input and help inform decisions regarding future program design, target setting and necessary funding levels.

It was generally agreed that the utilities have the best resources and means to develop and propose appropriate targets for the new DSM term. The group also generally agreed that the use of scorecards can offer value in addressing other objectives in addition to strictly measuring performance (based on natural gas savings), but that natural gas savings are the primary goal which drives utility performance and action. Some participants cautioned that the weighting of the various metrics within the scorecard needs to be evaluated to ensure that proper behaviour and activities are being incented appropriately.

With respect to long-term targets, parties generally agreed that the development of annual milestones, which can be adjusted throughout the DSM plan, allow for flexibility for the utilities and the ability to transition aspects of their DSM plans in order to reach their long-term targets.

9. Performance Incentive

The working group discussed the different elements of an appropriate performance incentive. It was generally agreed amongst the working group that some form of an incentive should be provided to the utilities. It was also generally agreed that the size of

the incentive should be large enough that it attracts the attention of senior management at the utilities and drives the intended corporate response.

Some participants did not feel that a cap or a maximum incentive amount was appropriate as it discourages the utilities from continuing to pursue additional savings and results. However, other participants noted that one reason caps or maximum incentive amounts are preferred is that it allows for some rate predictability to be achieved.

Some participants felt that a substantial incentive was appropriate, but only to reward utilities for achieving results that were very difficult to achieve. One participant noted that not all natural gas savings are equal and that some are much more difficult to achieve. It was suggested that the incentive be possibly weighted to provide a greater return on difficult to achieve savings.

It was also suggested, as noted earlier in these meeting notes, that the utilities should consider and propose options on how to incorporate pay-for-performance program(s) into their new multi-year DSM plans. The pay-for-performance programs will include a proposed utility funding mechanism to provide both funding recovery and incentive payments to the utility, but only based on verified natural gas savings.

10. Input Assumptions

The working group discussed the need to develop a combined input assumptions list to be used when developing and evaluating both electricity CDM programs and natural gas DSM programs. A number of parties agreed that a combined input assumptions list would be helpful, especially with respect to advancing collaborative and integrated CDM and DSM programs.

One participant did not feel it was appropriate to develop a combined list as the process used to develop the current input assumptions lists differ between natural gas and electricity. It was noted by a participant that the natural gas DSM input assumptions list involves stakeholder engagement whereas the OPA's input assumptions process does not. A combined list could therefore result in some skepticism of the final product and results of the programs. It was noted by one participant that for the performance-based programs the input assumption list would not be necessary as results will be determined by the change in consumption levels.

11. Joint DSM Plan Applications

The working group discussed the potential efficiency gains and challenges that may be realized if the utilities were directed to file a joint DSM plan application or advised that their DSM plans will be heard by the Board at the same time.

Enbridge noted that although a joint filing could likely be accomplished, it would be very challenging for both utilities, particularly in respect to internal approval processes, staff resources and coordination. Union noted the need for each utility to have its own individual DSM plan and that it would be preferable if they were heard separately.

Other participants thought that it made sense from an administrative efficiency standpoint to have both utilities in front of the same panel, and all the stakeholders in attendance at one time as the issues discussed in both proceedings will be identical and likely related on many levels. However, it was noted that the Board has tried this approach in the past during the companies' IRM application process with little success. Participants suggested that it would be helpful if the Board instructed the utilities that it expects them to collaborate and propose the same approaches with respect to common elements of the DSM plan (i.e. incentives, evaluation, target development).

It was also suggested by some participants that the utilities should have the same programs unless there are geographically unique elements that require a utility-specific program. It was suggested that this could help create a consistent message across the province, avoid duplication and help share lessons learned to create better programs. This point was not agreed to by all participants. It was further noted that the utilities should have freedom to develop different programs since competition and innovation help drive greater results.

12. Action Items and Next Meeting

Board staff confirmed the topics for discussion at the next meeting (process for verifying DSM results, Mid-term review, Cost Effectiveness Tests, Review notes on Draft DSM Framework). An agenda for the meeting will be provided to the working group members in the week before the meeting.

Meeting adjourned at 4:15 p.m.