

**Ontario Energy Board**



**EB-2014-0134**

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# **Draft Report of the Board**

**Demand Side Management Framework for  
Natural Gas Distributors**

September 15, 2014

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## 1.0 INTRODUCTION

The Ontario Energy Board (the “Board”) is developing a new natural gas Demand Side Management (“DSM”) Framework which the gas utilities<sup>1</sup> will use as they prepare applications for approval of new DSM plans for 2015 to 2020. The Board remains committed to ensuring that natural gas customers have access to appropriate DSM programs that benefit the natural gas system and its customers.

The current framework has been used by gas utilities in developing their DSM Plans since it was released on June 30, 2011<sup>2</sup> (the “2012 DSM Guidelines”) and guided the development of the gas utilities’ multi-year DSM Plans spanning the years 2012, 2013 and 2014, with the current DSM Plans expiring on December 31, 2014. The importance of DSM programs in Ontario was further underlined in the government’s Long Term Energy Plan<sup>3</sup>, resulting in a March 31, 2014, directive from the Minister of Energy to the Board (the “Conservation Directive”), requiring that a new DSM Framework be developed.

This report provides an overview of the Board’s proposed policy direction on all elements of the gas utilities’ DSM activities for the period of January 2015 to December 2020. The Board is seeking comments from interested parties on all the elements found within this Report and its companion document, the draft Filing Guidelines to the DSM Framework (the “draft DSM Guidelines”). The contents of this report will be used as the basis for the final DSM Framework for 2015 to 2020, and will guide the gas utilities in the development of their new multi-year plans.

### 1.1 Background

The Board is the regulator of Ontario’s natural gas sector and approves and fixes just and reasonable rates for the transmission and distribution of natural gas<sup>4</sup>. There are close to 3.5 million natural gas customers in Ontario comprised of both low volume customers (e.g., residential and small commercial) and large volume customers (e.g., large industrial) with approximately 26.1B m<sup>3</sup> of total natural gas sales in 2013 between Enbridge Gas Distribution Inc. (“Enbridge”) and Union Gas Limited (“Union”).

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<sup>1</sup> Natural Resource Gas Limited (“NRG”) has not filed any DSM Plans with the Board. The elements discussed throughout this report are applied primarily to both Enbridge Gas Distribution Inc. and Union Gas Limited. However, NRG is encouraged to begin participating in DSM by developing and filing a DSM Plan with the Board.

<sup>2</sup> Demand Side Management Guidelines for Natural Gas Distributors, EB-2008-0346, June 30, 2011.

<sup>3</sup> Achieving Balance, Ontario’s Long-Term Energy Plan, December 2013.

<sup>4</sup> The three rate regulated distributors are Enbridge Gas Distribution Inc., Union Gas Limited and Natural Resource Gas Limited. Two municipally owned gas companies (City of Kitchener and City of Kingston) are not rate regulated by the Board.

The Board has been promoting DSM and approving gas utilities' DSM Plans since establishing the original regulatory framework for natural gas DSM programs as part of the E.B.O. 169-III Report of the Board dated July 23, 1993. The E.B.O 169-III Report remained in place as a set of guidelines followed by the gas utilities, Union and Enbridge, until 2006.

In 2006, the Board conducted a generic proceeding<sup>5</sup> (the "2006 Generic Proceeding") to address a number of issues related to gas utility DSM activities. The Board's Decisions in this proceeding were issued in three phases and addressed all the elements that the gas utilities were expected to include in their DSM Plans from 2007 to 2009.

In anticipation of both Enbridge and Union's DSM Plans expiring at the end of 2009, the Board initiated a consultation process in October 2008 to review the DSM Framework developed as part of the 2006 Generic Proceeding and establish, through guidelines, a revised DSM Framework to be used by gas utilities in developing their next generation of DSM Plans.

The 2012 DSM Guidelines were issued on June 30, 2011. These guidelines took into consideration the *Green Energy and Green Economy Act, 2009* which was enacted as the guidelines were being developed. The gas utilities used the 2012 DSM Guidelines, which included both general policy direction and detailed technical guidance, as the basis for developing their DSM Plans for 2012 to 2014 which were ultimately approved by the Board.

The Board has been directed by the Minister of Energy to develop a new DSM Framework in consideration of specific government objectives. The draft DSM Framework discussed below includes the Board's views on all key elements of DSM that will be funded through the distribution rates of the gas utilities. The new DSM Framework is intended to provide guidance to the gas utilities as they develop their 2015 to 2020 DSM Plans to be approved by the Board. While conforming to elements as outlined by the DSM Framework would generally be expected to streamline the approval process, the gas utilities can propose alternatives in their DSM Plans, supported by commensurate evidence to demonstrate why the proposal is in the public interest. The Board will ultimately decide on the final elements and specific components of the DSM Plans through an application by the gas utilities for distribution rates under Section 36 of the *Ontario Energy Board Act, 1998* (the "Act").

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<sup>5</sup> EB-2006-0021

## 1.2 Scope of this Report

In announcing the commencement of the consultation process to develop a new DSM Framework on April 10, 2014, the Board indicated that it would undertake a comprehensive review of the framework governing gas utilities' DSM activities. As part of the first stage of the process, given the short timelines to develop the framework and importance of having early access to insights from industry participants, the Board convened a small DSM Working Group, comprised of key stakeholders, to share their views from consumer, environmental and gas utility perspectives. The Board is now seeking input from all interested stakeholders on the elements of a new framework.

In preparing this Draft Report, the Board was informed by the work of Board staff who were greatly assisted by the open exchange and feedback provided by working group members. The materials from this working group are posted on the [Board's website](#), including letters and studies<sup>6</sup> filed with the Board by interested parties. The Board recognizes that there is not always agreement on the approach to DSM, but it is equally informative to the Board to understand the areas of differences, as well as the areas of common ground.

The elements outlined below cover the main areas of the DSM Framework and provide the Board's proposed policy direction for each area.

As indicated, the Board welcomes stakeholder input on all aspects of the new framework. There are, however, some specific elements, such as targets, budgets, shareholder incentives and program types where the Board has put forward proposals for consideration, including specific questions for which the Board would be interested in responses.

These four central elements of the DSM Framework (i.e., targets, budgets, shareholder incentives and program types) are all interrelated and when considering one, it is often appropriate, and necessary, to consider what effects a decision related to one element will have on the others. For instance, when developing a budget, it is critical to understand what the budget is trying to achieve (e.g., what targeted result – natural gas savings, number of energy efficiency measure installations that deliver long-term natural gas savings, particular participation levels – do you want the budget to allow you to obtain?). Similarly, when developing and approving a target, it is prudent to understand the costs that are required to meet that given targeted level of activity and the impact on customers' rates. Further, in order to achieve a certain target, and taking into

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<sup>6</sup> Establishing a Conservation-First Policy for Ontario's Natural Gas Utilities, Toronto Atmospheric Fund, August 11, 2014.

consideration the resources needed to do so, what is the best manner to encourage and motivate the gas utilities to achieve the desired outcomes? This is the area where shareholder incentives must be considered. How a reward system is structured can have a considerable impact on the motivation of the gas utility to pursue DSM. These areas are considered further below and are each discussed in detail. When reviewing and considering the elements of the draft DSM framework, it is important to remember the relationship between these central areas.

Further, the Board has introduced proposals for stakeholder consideration which will engage the Board more fully in providing objective oversight and guidance for the development of the general DSM landscape within which the gas utilities will operate for the next six-years. Within this general landscape, the Board would provide guidance as it has in the past and allow the gas utilities to use their expertise to design and implement robust programs to help achieve greater gas efficiencies in the marketplace, reduce overall natural gas consumption levels, provide opportunities for customers to better manage their energy usage and develop DSM programs with the goal of avoiding or deferring future capital investments. These proposals would represent a change from the current framework, as they would put the Board in the position of taking on a larger role at both the front-end (target development through achievable potential studies) and the back-end (evaluation of program results) of the new DSM Framework.

The Board considers the comments received in response to this Draft Report a critical component of the consultation process in developing the new DSM Framework and encourages parties to provide detailed, thorough responses (including rationale) related to the positions taken.

### **1.3 Purpose of DSM**

There are a number of objectives set out in the Act that guide the Board in carrying out its responsibilities in relation to natural gas. One of the objectives is: “To promote energy conservation and energy efficiency in accordance with the policies of the Government of Ontario, including having regard to the consumer’s economic circumstances<sup>7</sup>.” The Board’s role in fulfilling its mandate is to balance the various objectives in the public interest.

As outlined in the government’s 2013 Long-Term Energy Plan (“LTEP”), the Ministry of Energy is committed to working with the Board to incorporate the government’s policy of conservation first into distributor planning processes for both electricity and natural gas

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<sup>7</sup> *Ontario Energy Board Act, 1998*, S.O. 1998, chapter 15 (Schedule B), section 2, paragraph 5.

utilities<sup>8</sup>. The LTEP also states that the government is committed to promoting a coordinated approach to conservation and will encourage collaboration of conservation efforts among electricity and natural gas utilities. The Conservation Directive further echoes the commitment outlined in the LTEP and requires the Board to establish a DSM policy framework that has regard to, amongst other things, a six-year term with a mid-term review, more closely aligning natural gas DSM and electricity Conservation and Demand Management (“CDM”) efforts, coordinating and integrating DSM and CDM programs (including low-income programs) and enabling the achievement of all cost-effective DSM, as far as is appropriate and reasonable. The Board is also required to review and publish DSM results on an annual basis.

As noted above, the Board’s first substantive policy with respect to DSM was introduced over 20 years ago. The policies have evolved over time and the annual savings results have continued to grow as the gas utilities incorporated DSM into their core business.

With the introduction of a new framework it is important for the Board to reflect on why the Board believes that DSM is important and what it is trying to achieve through the provision of rate payer funded DSM programs. There are many benefits of DSM, but the Board’s approval to fund such programs through natural gas distribution rates must be within the scope of the Board’s legislative mandate. The Board believes that rate payer funded DSM programs should focus on the following goals:

- **Promote energy conservation and energy efficiency to create a culture of conservation.** DSM programs are expected to advance conservation and energy efficiency, beyond the program participants, to the broader public in Ontario.
- **Avoid costs related to future natural gas infrastructure investment including improving the load factor of natural gas systems.** Gas utilities are expected to engage in integrated resource planning to include DSM as an option to be considered in infrastructure planning to reduce the demand for natural gas with the goal of avoiding and/or deferring future infrastructure costs. This is consistent with the government policy of conservation first; and,
- **Assist consumers in managing their energy bills through the reduction of natural gas consumption.** Customers who participate in the DSM programs are expected to observe a decrease in their energy bills.

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<sup>8</sup> Achieving Balance, Ontario’s Long-Term Energy Plan, December 2013, Conservation First, Pg. 21.

## 1.4 DSM Framework Components

The sections below summarize the major elements of the DSM Framework based on which the natural gas utilities will develop their DSM Plans going forward:

- 1) Term
- 2) Guiding Principles
- 3) DSM Targets
- 4) Budgets
- 5) Shareholder Incentive
- 6) Program Types
- 7) Program Evaluation
- 8) Deferral and Variance Accounts – Recovery and Disposition of DSM Amounts
- 9) Integration and Coordination of DSM and CDM Programs
- 10) Future Infrastructure Planning Activities
- 11) Stakeholder Consultation

In addition to the DSM Framework, the Board has provided a companion document, the draft DSM Guidelines, which contain detailed, technical guidance to the gas utilities when preparing their DSM Plans. The DSM Guidelines are intended to provide a common understanding of key elements of DSM activities. The Board is also seeking comments on the draft DSM Guidelines.

What follows are the main sections that will make up the new DSM Framework. The proposals put forth by the Board in each area should be viewed as draft with the expectation that interested parties will provide feedback on the proposals. The Board has included options and questions with respect to three of the central elements of the DSM Framework (i.e., target development, budget development and shareholder incentive), due to the significance of each area and, as noted above, due to the fact that these areas are related to one another the Board's adoption of a particular option may have an effect on the others. For program types, the Board has posed a number of questions.

## 1.5 Jurisdictional Review

To assist in the development of this Draft Report, the Board retained Concentric Energy Advisors, Inc. ("Concentric") to provide a jurisdictional review, focusing on other leading states and provinces throughout North America and identifying key findings in relation to critical areas of the DSM framework. Concentric updated sections of its 2010 report titled *Review of Demand Side Management Framework for Natural Gas Distributors* based on the most recent data available to give the Board an accurate understanding of

the central components of DSM frameworks in other leading jurisdictions. The Concentric study looked at twelve states<sup>9</sup> and six provinces<sup>10</sup> and focused on how targets, budgets, incentives, stakeholder engagement and legislative and regulatory elements are addressed in each. The data used in the Concentric report should be used with the understanding that there can be differences in other jurisdictions in relation to the legislative and regulatory context, the length and breadth of DSM programs offered and the varying manners in which the data have been reported. The Board has included a summary of key findings from Concentric's updated study throughout this Draft Report to help provide a general context for DSM activities in Ontario. The entire Concentric report is available on the Board's webpage.

## 2.0 TERM

In order to facilitate effective, flexible and sustained DSM program offerings across Ontario, the Board will establish a DSM Framework which will provide long-term access to natural gas energy efficiency and conservation programs to customers. A long-term framework will allow for the gas utilities to properly adapt and change with the market, ensure that programs remain in place so that customers will have the opportunity to participate and provide continuity and flexibility to manage DSM programs appropriately. Consistent with the government objectives set out in the Conservation Directive, the term of the DSM Framework will span a period of six-years, commencing on January 1, 2015 and ending December 31, 2020, with a mid-term review completed by June 1, 2018.

### 2.1 MID-TERM REVIEW

While the DSM framework spans a six-year period, the Board will undertake a mid-term review by June 1, 2018 at the same time as the mid-term review of the electricity Conservation First Framework. The mid-term review will consist of an assessment of the gas utilities' performance to-date, and the appropriateness of the long-term DSM targets and budgets. The mid-term review will provide the Board with an opportunity to review the gas utilities' progress in implementing their plans to address the key goals of the DSM Framework (e.g., integration with CDM, new and innovative program offerings, low-income program delivery, DSM as a part of infrastructure planning, etc.). Further, the Board will conduct an assessment of budget levels and annual metrics to determine their reasonableness in enabling the gas utilities to achieve the long-term targets.

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<sup>9</sup> US States: California, Connecticut, Iowa, Maine, Massachusetts, Michigan, Minnesota, New York, Oregon, Rhode Island, Vermont and Washington.

<sup>10</sup> Canadian Provinces: Alberta, British Columbia, Manitoba, Nova Scotia, Quebec and Ontario.

The Board further plans to undertake an achievable potential study for natural gas efficiency in Ontario by June 1, 2016 to inform the mid-term review, consistent with the Conservation Directive.

### 3.0 GUIDING PRINCIPLES

The Board has outlined a list of guiding principles to be considered in the development, assessment and approval of DSM Plans. Gas utilities are expected to take these into consideration when designing and planning their individual programs and their overall DSM activities for 2015 to 2020

**1. Invest in DSM where the cost is equal to or lower than capital investments and/or the purchase of natural gas.**

The administration costs for delivering DSM programs and participant incentives should be equal to or lower than the capital investments and/or the purchase of natural gas costs calculated on a life-cycle basis and expressed on a \$/m<sup>3</sup> of natural gas saved or supplied, respectively.

**2. Achieve all cost-effective DSM that result in a reasonable rate impact.**

The gas utilities' overall DSM portfolio and individual programs should aim to achieve all the cost-effective DSM available in its franchise area, having regard to the Board's guidance with respect to DSM budgets that the costs required to do so result in reasonable rate impacts for customers.

**3. Where appropriate, coordinate and integrate DSM and electricity CDM efforts to achieve efficiencies.**

Gas utilities should pursue coordination and integration in designing, promoting and delivering DSM programs with the Ontario Power Authority ("OPA") as well as with electricity distributors, where appropriate and possible, to increase overall efficiency, reduce delivery costs, and maximize program impacts.

**4. Gas utilities will be able to recover costs and lost revenues from DSM programs.**

Gas utilities will be allowed to recover spending associated with the administration and delivery of DSM programs, lost revenues and shareholder incentive amounts, subject to any specific alternative approach such as a pay-for-performance funding/incentive mechanism.

- 5. Design programs so that they achieve high customer participation levels.**  
Programs should be designed to remove financial, information and other barriers in the market place to increase take-up of DSM programs.
- 6. Minimize lost opportunities when implementing energy efficient upgrades.**  
DSM programs should pursue opportunities such as replacement of equipment with long lives that, if not undertaken during the current planning period, will no longer be available or will be substantially more expensive to implement in a subsequent planning period.
- 7. Ensure low-income programs are accessible across the province.**  
Low-income programs should be screened at lower thresholds than other programs, as determined by the Board, and be available across the province.
- 8. Programs should be designed to pursue long-term energy savings.**  
Programs should pursue DSM options with long lives that produce long-term energy savings, such as thermal envelope improvements (e.g., wall and attic insulation).
- 9. Shareholder incentives will be commensurate with performance and efficient use of funds.**  
The amount of shareholder incentive will depend on meeting or exceeding the DSM targets, including natural gas savings targets, and will take into consideration the relative difficulty in achieving other goals the Board expects the gas utilities to achieve (e.g., programs that deliver long-term savings, accessible low-income programs, integration and coordination with electricity conservation programs, conservation first in infrastructure planning, etc.); and,
- 10. Ensure DSM is considered in gas utility infrastructure planning at the regional and local levels.**  
DSM should be one of the options considered when developing both regional and local infrastructure plans. Infrastructure investments may be avoided or deferred through targeted reductions in the demand for natural gas.

## 4.0 DSM TARGETS

DSM targets are the performance standards that the gas utilities will strive to achieve, both annually and throughout the term of the DSM Framework. Currently, annual DSM targets are proposed by the gas utilities for each program type based on the amount of natural gas savings available within the budget parameters established by the Board.

The targets are then subject to the Board's adjudicative process and ultimately approved by the Board. In 2011 and 2012, the gas utilities achieved a total of approximately 216 million m<sup>3</sup> and 194 million m<sup>3</sup> of annual natural gas savings respectively.<sup>11</sup>

The gas utilities have effectively managed their DSM efforts to regularly meet and at times exceed their annual DSM targets. Although positive results have been experienced in the past, as part of the new DSM Framework, the Board is of the view that the development of long-term natural gas savings targets for 2020 will ensure that the gas utilities' annual efforts are focussed on achieving a long-term goal that will get the most value from DSM expenditures, increase the overall efficiency of the natural gas system and provide customers with tangible ways to better manage their energy bills.

The Board is therefore of the view that a long-term natural gas savings (m<sup>3</sup>) target, to be achieved by December 31, 2020, should be established for each utility. This target would be based on the savings to be achieved by the end of 2020 and include those natural gas savings that remain and persist at the end of 2020 from DSM programs delivered throughout the six-year DSM Framework. This longer-term goal will provide the natural gas utilities with the necessary guidance to propose annual targets and metrics that will result in achievement of the long-term natural gas savings goal. The process for developing the long-term target is discussed in greater detail in the sections that follow.

For the annual targets and metrics, the Board continues to be of the view that gas utilities should incorporate multiple performance metrics using a weighted scorecard approach (e.g., cubic meters (m<sup>3</sup>) of annual and cumulative natural gas saved, number of participants that receive at least one long-life energy efficiency technology, etc.) into their DSM Plans. The Board will assess the gas utilities' overall performance based on their actual achievements in relation to the various annual targets approved by the Board. Shareholder incentives would be based on the achievement of the annual scorecard.

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<sup>11</sup> Enbridge results: 2011 – 77.3M m<sup>3</sup>; 2012 – 56.5M m<sup>3</sup> (reflects the Board's decision in EB-2013-0352 to reduce EGD's 2012 large volume savings by 20%).

Union results: 2011 – 139.0M m<sup>3</sup> (reflects the Board's decision in EB-2013-0109 to reduce Union's 2011 large volume savings by 25%); 2012 – 137.4M m<sup>3</sup>

## 4.1 Discussion of Target Options

By developing long-term (i.e., 2020) targets for reductions in natural gas consumption, both Enbridge and Union will be given the opportunity to work within a longer framework to achieve significant annual savings.

Two options for how the long-term targets could be developed have been provided below. The two options are similar as they both propose that each utility's long-term target will initially act as a provisional target, which would be used by the gas utilities to help devise their DSM Plans that will be filed for Board approval. The long-term targets will be finalized following the hearing on the DSM Plans.

An additional similarity of each option is the Board's view that the development of the long-term targets should be guided by the most recent studies prepared by the gas utilities that assess the overall potential to achieve incremental natural gas energy efficiency advancements in the province in two ways: first, through an assessment of the overall economic potential<sup>12</sup>, and; next, through an assessment of the achievable potential<sup>13</sup>. The main difference between the two options provided below is that one allows for the long-term targets to be proposed by the utilities, whereas the other option proposes that the Board centrally establish a long-term natural gas savings target for each of the utilities. In both cases, the long-term targets should be challenging, but achievable, and will be based on updated analysis of the level of natural gas energy efficiency potential available in Ontario (as discussed above), market opportunities, past experiences with respect to DSM programs, new innovative programs and industry capability to deliver expanded DSM programs.

In addition to the long-term targets, the Board is of the view that annual DSM targets for all sectors/programs should be developed and proposed by the gas utilities. The annual targets will allow the gas utilities to propose how they plan to meet the long-term target and enable the Board to monitor the utility's progress. The annual targets should contain metrics for total natural gas savings, as well as other performance metrics that will motivate the gas utilities to undertake the appropriate activities that will result in sustained behavioural change to reduce natural gas consumption levels and ultimately

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<sup>12</sup> Economic potential is the level of natural gas consumption that would occur if all equipment and building envelopes were upgraded to the level that is cost-effective from the utility's perspective. All the energy efficiency technologies and measures that have a positive measure TRC are incorporated into the economic potential forecast.

<sup>13</sup> Achievable potential is a proportion of the natural gas savings identified in the economic potential that could realistically be achieved within the study period. Achievable potential recognizes that it is difficult to induce customers to purchase and install all the energy efficiency technologies that meet the criteria defined by the economic potential forecast.

the overall costs to the natural gas system which would otherwise be borne by consumers. The annual targets and metrics would be included in the utility's scorecard to determine annual performance and how the utilities will be incented to achieve the expected results.

The Board is considering two options for how to appropriately develop the long-term natural gas savings targets to be met by 2020:

- **Option 1** – the gas utilities develop and propose provisional long-term natural gas savings targets based on most recent potential studies.
- **Option 2** – the Board develops provisional long-term natural gas savings targets based on an assessment and analysis of achievable potential by the Board, making use of studies that are available.

## 4.2 Jurisdictional Review: Targets

Within Concentric's jurisdictional review, the relationship between annual natural gas savings from DSM programs and a utility's total annual retail sales is summarized for twelve leading US states and two provinces, in addition to Ontario. This was done to provide a general context, based on the experience of other jurisdictions, for the amount of natural gas savings achieved relative to the size of the utility. This provides a perspective into the level of annual natural gas savings that may be possible throughout the term of the new DSM framework. Although the jurisdictional review is informative, the long-term targets will ultimately be based on information from the achievable potential studies and other relevant factors, such as past program experience and the capacity available in the market for increased DSM efforts.

**Table 1 - DSM Natural Gas Savings as a Percentage of 2011 Retail Sales<sup>14</sup>**

State/Province	2012 Natural Gas Program Savings (Million m <sup>3</sup> )	Natural Gas Savings from DSM Programs as a % of 2011 Retail Sales <sup>B</sup>
California	73.3	0.34%
Connecticut	10.3	0.40%
Iowa	22.8	0.67%
Maine	0.6	0.23%
Massachusetts	64.7	1.08%
Michigan	121.6	0.89%
Minnesota	76.6	1.23%
New York	64.4	0.33%
Oregon	16.4	0.75%
Rhode Island	6.4	0.81%
Vermont	2.2	1.29%
Washington	18.3	0.45%
<b>Average</b>		<b>0.71%</b>
British Columbia	12.1	0.38%
Manitoba	14.4	1.16%
<b>Average</b>		<b>0.77%</b>

<sup>14</sup> The data used in Table 1 was sourced from the updated Concentric Report to reflect natural gas savings from DSM programs as a percentage of retail sales.

Based on the Concentric review, and as shown in Table 1 above, it was found that, on average, annual natural gas savings from DSM programs from twelve leading US states was equal to 0.71% of total annual gas retail sales volumes attributed to the residential and commercial sectors. There were some leading US states, such as Vermont (1.29%), Minnesota (1.23%) and Massachusetts (1.08%) who have achieved significant gas savings totals from their DSM programs. In Canada, although the data is limited, it was found that Manitoba has achieved comparable annual savings from DSM programs to that of the leading US jurisdictions (1.16% of total retail sales). British Columbia's annual DSM savings (0.38%) are not a significant portion of the total gas retail sales. This review provides a general sense of relative DSM activities in leading jurisdictions, however the data should be used with caution as there are differences with respect to customer characteristics, historic DSM activities, legislative and regulatory context, and how data is reported throughout the jurisdictions reviewed which have not been taken into consideration in this analysis.

### 4.3 Options

#### 4.3.1 Option 1: Gas Utility-proposed Provisional Long-term Natural Gas Savings Targets

Under this option, the gas utilities would continue to develop and propose utility-specific natural gas savings targets, however, in addition to the annual targets and metrics the gas utilities have proposed in the past, they would now also propose a provisional long-term target, to be achieved by 2020. The gas utility will propose the provisional long-term target within their applications for a long-term DSM Plan, subjecting the target to the rigour of the hearing on the DSM Plan and ultimately a decision by the Board.

The gas utilities would rely on their most recent achievable potential studies, experience-to-date and projected market opportunities and constraints to inform the development of their long-term natural gas savings target. This option would maintain the current practice of the gas utilities leading the development of targets related to its DSM efforts.

The gas utilities possess a wealth of knowledge of opportunities in the market having delivered DSM programs for over two decades and are ultimately responsible for achieving the natural gas savings set out in any target. Under this scenario, as discussed below, the gas utilities would also be expected to propose a total DSM budget required to meet the long-term target, taking into consideration the Board's guidance with respect to rate impacts discussed in the section on budgets below.

### 4.3.2 Option 2: Board-issued Provisional Long-term Natural Gas Savings Targets

Similar to the first option, under option two, the Board would establish provisional long-term natural gas savings targets based on its review and analysis of the gas utilities' most recent achievable potential studies and the jurisdictional review completed by Concentric. The provisional, utility-specific long-term targets issued by the Board would be used by the gas utilities in their development of their DSM Plans. Ultimately, the final long-term target will be that which is included in the Board's final decision on the gas utilities' 2015-2020 DSM Plans. A benefit of this option is that the Board's expectations are fully transparent in guiding the gas utilities at the outset of the DSM Framework and provide an independent assessment of challenging but achievable gas savings targets for 2020.

Another benefit of the Board developing the long-term targets is that it will enable a level of Board oversight at the front end of the DSM Framework that has not been in place in recent years. The Board will be in the position to help guide the gas utilities towards pursuing the type of natural gas savings that will ultimately lead to the greatest long-term and tangible benefits. By taking a role at the front end of the framework, the Board will be appropriately positioned to conduct a thorough and objective analysis of the overall results at the back end of the process through the evaluation process. Utilities would have the flexibility to propose, manage, and execute annual DSM Plans within a clear overall framework in order to achieve the long-term targets.

As shown in Table 2 below, the average natural gas savings from DSM programs for 2011 and 2012 as a percentage of total gas sales for Union and Enbridge has been 0.99% and 0.62% respectively.

**Table 2 - Total Gas Sales and DSM Savings in Ontario<sup>15</sup>**

	Union Gas Limited			Enbridge Gas Distribution Inc.			Ontario Total		
	Total Gas Sales (m <sup>3</sup> )	Actual Annual Gas Savings (m <sup>3</sup> )	DSM Savings as % of Gas Sales	Total Gas Sales (m <sup>3</sup> )	Actual Annual Gas Savings (m <sup>3</sup> )	DSM Savings as % of Gas Sales	Ontario Total Gas Sales (m <sup>3</sup> )	Actual Annual Gas Savings (m <sup>3</sup> )	DSM Savings as % of Gas Sales
2011	14,137,126,000	139,027,493	0.98%	11,503,300,000	77,226,003	0.67%	25,640,426,000	216,253,496	0.84%
2012	13,900,754,000	137,438,488	0.99%	10,499,300,000	60,135,753	0.57%	24,400,054,000	197,574,241	0.81%
2013	14,545,277,000	N/A	N/A	11,558,100,000	N/A	N/A	26,103,377,000	N/A	N/A
<b>Average</b>	14,194,385,667	138,232,991	0.99%	11,186,900,000	68,680,878	0.62%	25,381,285,667	206,913,869	0.82%

<sup>15</sup> 2013 data is not available as the gas utilities have yet to dispose of their final 2013 DSM-related accounts.

Union's higher total savings relative to Enbridge's savings is attributed to the higher proportion of the gas savings that is coming from its large industrial customers. Based on these figures, and subject to further information regarding achievable potential to be provided by the potential studies conducted by the two utilities, it appears to the Board that, at least directionally, long-term natural gas DSM targets, equal to an annual reduction of approximately 0.8% of the average total gas sales between 2011 and 2013 by 2020 may be appropriate. This is equivalent to approximately 1.2 billion m<sup>3</sup> of natural gas saved by 2020. Depending on the results of the achievable potential studies, and assuming potential natural gas reductions are in the range discussed above, this could result in the Board expecting that the gas utilities would achieve natural gas reductions at the end of 2020 (comprising new savings in 2020, plus the savings from 2015 to 2019 that persist in 2020) equal to about 5% of the average total sales from 2011 to 2013 (0.8% of total annual gas sales reductions through DSM programs multiplied by the 6-years of the DSM Framework).

The Board expects the new DSM Framework will guide the gas utilities towards more challenging DSM activities over the next six-years, such as programs that focus on long-term natural gas savings and conservation first in infrastructure planning, and greater use of evaluation-based, actual results data rather than assumption-based results. The Board is also proposing that any industrial programs focus on providing value-added technical expertise including expert engineering studies. This shift in focus may make results more challenging to achieve.

Finally, the Board acknowledges that a ramp up rate for new programs is required which will likely result in savings below 0.8% of total sales at the beginning of the period and savings above 0.8% of total sales for the latter years.

#### **4.4 Interrelatedness of DSM Targets with DSM Budgets**

As discussed earlier, DSM targets and DSM budgets are closely related. In order to have a reasonable expectation that a particular target is attainable, a corresponding budget that has appropriately taken the targeted level of activity into account is necessary. DSM budgets are discussed further below, however it is important to consider the impacts both targets and budgets have on each other. In the event that the budget is not sufficient, the targeted goals may be inappropriate and overall results will be less than expected. However, if the targeted goals are too conservative in relation to a generous budget, it may allow for the gas utilities to perform well due to the less than challenging targets. Budgets are discussed in section 5.0 below, where two options have been provided.

Following the application by the gas utilities for approval of long-term DSM Plans, the Board will review and assess the appropriateness of the provisional long-term natural gas savings targets in the context of the associated DSM budgets proposed by the gas utilities. The Board's review of gas utility long-term DSM Plans could result in approval of final long-term DSM targets and the associated budgets or approval of modified DSM targets and/or budgets as the Board considers appropriate based on the information filed by the utilities. The Board plans to review the progress made towards the long-term DSM targets and budgets during its mid-term review of the DSM Framework, and the long-term DSM targets and/or budgets could be amended at that time.

#### **4.5 Request for Comment**

The Board has proposed two different options for developing long-term natural gas savings targets. The Board is of the view long-term targets are appropriate to ensure that the gas utilities' DSM efforts are appropriately guided over the course of the DSM Framework.

Interested parties are invited to comment on the two options discussed above. In particular, the Board is interested in responses to the following questions:

- 1) Is a total reduction equal to 5% of average annual gas sales from 2011 to 2013, attributable to DSM programs, a reasonable amount for the gas utilities to be expected to achieve in 2020 (consisting of savings in 2020 and savings from 2015 to 2019 persisting in 2020)?
- 2) Which option is the most appropriate for developing fair and objective, yet challenging, long-term natural gas savings targets?
- 3) What information, other than what is listed above, should the utilities/Board consider when developing the long-term targets?
- 4) Is the proposal for developing provisional long-term targets to guide the gas utilities in building their DSM Plans, with the final long-term targets determined through the hearing process, an effective manner to develop and approve realistic targets?
- 5) Is there a different method in which long-term targets could be developed that the Board should consider?

#### **5.0 BUDGETS**

In order to cover the costs of administering and delivering DSM programs, including marketing efforts, financial incentives to participants, and educating consumers, long-term and annual DSM budgets must be developed that will enable the achievement of

the long-term DSM targets over the duration of the DSM Framework (i.e., 2015 to 2020).

In the 2012 DSM Guidelines, the Board provided direction to the gas utilities regarding the expected upper limit of the annual DSM budgets, which for 2011 would be \$28.1 million for Enbridge and \$27.4 million for Union<sup>16</sup>. Based on the Board's direction, the gas utilities developed their 2012 to 2014 DSM Plans and respective annual targets based on an upper limit of the budget in 2014 being \$32.8 million for Enbridge and \$32.2 million for Union. When viewed relative to the utilities' overall gas distribution revenues, the DSM budgets for Enbridge and Union represented approximately 3% and 4% of distribution revenues respectively (not including shareholder incentive payments).

## 5.1 Discussion of Budget Options

The Board is considering two options that would be appropriate for developing annual DSM budgets to achieve a balance between enabling the achievement of all cost-effective natural gas savings over the course of the DSM Framework, while also ensuring that rate impacts to customers are reasonable.

The Board's objectives with respect to natural gas include the requirement to protect the interests of consumers with respect to prices, reliability and quality of gas service. The Board also has an objective to promote energy conservation and energy efficiency, but doing so having regard to the consumer's economic circumstances. In approving any budget amount, it is necessary for the Board to consider the rate impacts to customers as all DSM costs are recovered through distribution rates.

The Board expects utilities to develop innovative DSM programs over the course of the new DSM framework. Under both of the options described below, the Board expects that the gas utilities will use their DSM budgets to transition programs from those which offer and focus on short-term benefits to primarily pursue long-term natural gas savings as well as use the expertise internal to the gas utilities to provide value-added support and technical guidance to customers. The Board is of the view that these areas have the ability to provide long-term benefits and tangible bill reductions for customers. Further, and regardless of the option ultimately selected, the Board expects the gas utilities' DSM budgets to enable the delivery of results in the following key areas:

- the delivery of broader low-income offerings across the province ensuring that all low-income customers have access to natural gas energy efficiency programs;

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<sup>16</sup> The annual DSM budgets were subject to annual escalations for the previous year's Gross Domestic Product Implicit Price Index ("GDP-IP") and could be increased if the gas utilities' low-income programs were expanded.

- increased collaboration and integration of natural gas DSM programs and electricity CDM programs to provide greater value to customers and ensure a more efficient use of rate payer funding;
- the implementation of DSM programs that are evidence-based and rely on detailed customer data in order to clear show a customer has lowered consumption levels over the course of different billing periods (i.e., performance-based programs);
- development of new and innovative programs, including social benchmarking, on-bill financing and performance-based programs;
- development of program(s) amenable to a pay-for-performance funding recovery model where gas utilities would recover program costs and earn a shareholder incentive amount through one \$/m<sup>3</sup> rate based on verified natural gas savings; and
- implementing DSM programs that address infrastructure planning processes at the regional and local levels with the ultimate goal of reducing and/or deferring future capital investments.

Further discussion on program types is included in the DSM Guidelines.

The long-term DSM budgets should take into account the gas utility's long-term DSM target, overall size of gas utility, geographic characteristics and customer base served. The budget should be based on the nature of the suite of proposed programs, acknowledging that some efforts are more costly for a variety of reasons (e.g., maturity level of program, cost of energy efficiency technologies with long-lives, low-income programs, etc.).

The Board has included two different options for how annual DSM budgets can be developed.

- **Option 1** – the gas utilities develop and propose DSM budgets which are a product of the analysis conducted relative to the amount of funding required to meet the long-term natural gas savings target.

- **Option 2** – the Board establishes a guideline for maximum DSM budget levels which considers rate impacts to customers but will allow the gas utilities to pursue significant natural gas savings between 2015 and 2020.

## 5.2 Jurisdictional Review: Budgets

**Table 3 - DSM Budgets as a Percentage of Gas Distribution Revenue from Leading Jurisdictions<sup>17</sup>**

State/Province	Utility	Year	Gas DSM Budget	Gas Distribution Revenue	DSM as % of Gas Distribution Revenue
California	Southern California Gas	2013	\$ 210,288,351	\$ 2,374,000,000	8.86%
Connecticut	Yankee Gas	2013	\$ 8,263,050	\$ 256,877,205	3.22%
Massachusetts	National Grid	2011	\$ 93,106,711	\$ 654,410,000	14.23%
Minnesota	Xcel Energy	2013	\$ 13,616,878	\$ 210,959,000	6.45%
Oregon	NW Natural Gas	2013	\$ 24,493,635	\$ 372,886,000	6.57%
Rhode Island	National Grid	2012	\$ 13,700,000	\$ 176,813,000	7.75%
Vermont	Vermont Gas Systems	2013	\$ 1,884,000	\$ 38,986,000	4.83%
<b>Average</b>					<b>7.42%</b>
British Columbia	FortisBC	2013	\$ 35,600,000	\$ 631,000,000	5.64%
Manitoba	Manitoba Hydro	2013	\$ 14,300,000	\$ 147,000,000	9.73%
<b>Ontario</b>	<b>Enbridge</b>	<b>2012</b>	<b>\$ 39,070,306</b>	<b>\$ 1,015,000,000</b>	<b>3.85%</b>
<b>Ontario</b>	<b>Union Gas</b>	<b>2012</b>	<b>\$ 39,164,417</b>	<b>\$ 727,000,000</b>	<b>5.39%</b>
<b>Average</b>					<b>6.15%</b>

Based on the jurisdictional review conducted by Concentric, the average DSM budget as a percentage of distribution revenues of the seven utilities located in the leading US jurisdictions where full financial information was available, is approximately 7.42%. Only leading jurisdictions were considered. Three utilities from the seven states (Massachusetts 14.23%, California 8.86%, and Rhode Island 7.75%) have DSM budgets greater than the average 7.42% of distribution revenues. Of the Canadian jurisdictions included in the study, Manitoba's DSM budget is approximately 9.73% of its distribution revenues while British Columbia's is approximately 5.64%. For the second option below, the Board has been guided by the level of spending in the larger DSM landscape throughout North America, the experience from Ontario and the Board's legislated objective to protect consumers with respect to prices.

<sup>17</sup> The data used in Table 3 was sourced from the updated Concentric Report to reflect natural gas DSM budgets as a percentage of distribution revenues. Ontario totals include both budgets and shareholder incentive amounts.

As another point of comparison, Concentric reviewed 2012 budgets for both electricity and natural gas conservation activities amongst the leading US jurisdictions included in its review. Concentric found that natural gas conservation budgets were equal to approximately 23% of electricity conservation budgets.

## 5.3 Options

### 5.3.1 Option 1: Annual DSM Funding Level Proposed by the Gas Utilities

Under this option, the gas utilities would propose annual budgets within six-year DSM Plans commensurate with the activities required to achieve the long-term DSM targets (discussed in Section 4.0). By allowing the gas utilities to propose budgets, the gas utilities will be able to develop and propose funding levels that are necessary to achieve the long-term natural gas savings target consistent with their analyses. If this option is selected, the Board would expect that the gas utilities will rely on their past program experience, experience in other jurisdictions, consultation with stakeholders and future market opportunities when developing the long-term budgets.

The utilities would file applications to the Board for approval of six-year DSM Plans, including annual budgets to achieve a long-term target. The Board expects the proposed budgets to be supported by evidence submitted by the gas utilities as it would for any application for distribution rates. The Board's hearing process is one that is open and transparent, and which allows all parties to test and present evidence to ensure that the Board has all of the information it requires to make an informed decision. One consideration that should be central to the gas utilities is whether the impact on customers' rates from the budget may be greater than those approved in the past. The gas utilities should provide clear evidence of how increased DSM funding will provide greater value to customers and how these costs will be offset with the benefits of the DSM programs offered.

### 5.3.2 Option 2: Board-established DSM Budget Levels

Under this option, the Board will establish a maximum budget guideline it considers appropriate for each gas utility for the duration of the 2015 to 2020 DSM Framework. The budget guideline will be based on a review and analysis of the gas utilities' most recent achievable potential studies, the jurisdictional review completed by Concentric, necessary funds required to transition to new programs and a consideration of the rate impacts to customers. As with the previous option, the utilities would file applications to the Board for approval of six-year DSM Plans, including annual budgets to achieve a long-term target. However, the budget guideline would provide the utilities with guidance on the Board's general views on the appropriate level of spending on DSM..

This option is consistent with the direction the Board provided in the 2012 DSM Guidelines, which resulted in DSM budgets of \$32.2 million for Union and \$32.8 million for Enbridge in 2014, plus any shareholder performance incentives. Tables 2 below shows the natural gas sales, by way of distribution margins, and DSM budgets for the two utilities, while Table 3 shows similar information but includes shareholder incentive with the DSM budgets.

As opposed to indicating a specific DSM budget figure (e.g., \$30 million/gas utility/year), under this option, the budget guideline would be based on the 2020 DSM budgets not exceeding a percentage, such as 6%, of the utility's actual 2013 distribution revenues (or, as outlined in the gas utilities' audited financial statements, their gas distribution margins<sup>18</sup>). The Board is of the view that this approach will provide a reasonable proxy of distribution rate impacts to customers. Based on 6% of the actual 2013 distribution revenues, the maximum DSM budgets would be \$64 million for Enbridge and \$46 million for Union. Shareholder incentives would be additional to this amount. The average rate impact associated with DSM budgets over the period 2011 to 2013, including the shareholder incentive, is estimated to be about \$1.00 per month for both Union's and Enbridge's customers. With the increased DSM budgets, it is estimated that the average impact on the residential bill is expected to increase to about \$2.00 per month for both utilities. Actual bill impacts will depend on the mix and type of programs proposed by the gas utilities. To mitigate rate impacts, the Board would expect if the gas utilities plan to move to the maximum budget guideline, they would propose a ramp up for their program offerings in their annual plans.

**Table 4 – Natural Gas Sales and DSM Budgets in Ontario**

	Union Gas Limited			Enbridge Gas Distribution Inc.			Ontario Total		
	Gas Distribution Margin (\$)	DSM Budget (\$)	DSM Spending as % of Dx Revenues	Gas Distribution Margin (\$)	DSM Budget (\$)	DSM Spending as % of Dx Revenues	Gas Distribution Margin (\$) <sup>1</sup>	DSM Budget (\$)	DSM Spending as % of Dx Revenues
2011	\$713,000,000	\$27,355,000	3.8%	\$1,021,000,000	\$28,074,443	2.7%	\$1,734,000,000	\$55,429,443	3.2%
2012	\$727,000,000	\$30,954,000	4.3%	\$1,015,000,000	\$30,910,000	3.0%	\$1,742,000,000	\$61,864,000	3.6%
2013	\$772,000,000	\$31,641,000	4.1%	\$1,069,000,000	\$31,588,200	3.0%	\$1,841,000,000	\$63,229,200	3.4%
<b>Average</b>	\$737,333,333	\$29,983,333	4.1%	\$1,035,000,000	\$30,190,881	2.9%	\$1,772,333,333	\$60,174,214	3.4%
2020*		\$46,320,000	6.0%		\$64,140,000	6.0%		\$110,460,000	6.0%

<sup>18</sup> For Union, gas distribution margin = total gas sales and distribution revenues less the cost of gas. Gas sales and distribution revenue is the sum of the delivery revenue and gas supply revenue (and earning sharing, if applicable). For Enbridge, gas distribution margin = gas commodity and distribution revenue plus transportation of gas for customers less the cost of gas, which includes gas commodity and distribution costs, excluding depreciation.

**Table 5 – Natural Gas Sales & DSM Budgets (& Shareholder Incentives) in Ontario<sup>19</sup>**

	Union Gas Limited			Enbridge Gas Distribution Inc.			Ontario Total		
	Gas Distribution Margin (\$)	DSM Budget incl. Shareholder Incentive (\$)	DSM Budget (incl. Incentives) as % of Distribution Margin	Gas Distribution Margin (\$)	DSM Budget incl. Shareholder Incentive (\$)	DSM Budget (incl. Incentives) as % of Distribution Margin	Gas Distribution Margin (\$) <sup>1</sup>	DSM Budget incl. Shareholder Incentive (\$)	DSM Budget (incl. Incentives) as % of Distribution Margin
2011	\$713,000,000	\$36,038,100	5.1%	\$1,021,000,000	\$34,843,978	3.4%	\$1,734,000,000	\$70,882,078	4.1%
2012	\$727,000,000	\$39,164,417	5.4%	\$1,015,000,000	\$39,070,306	3.8%	\$1,742,000,000	\$78,234,723	4.5%
2013	\$772,000,000	N/A	N/A	\$1,069,000,000	N/A	N/A	\$1,841,000,000	N/A	N/A
<b>Average</b>	\$737,333,333	\$37,601,259	5.2%	\$1,035,000,000	\$36,957,142	3.6%	\$1,772,333,333	\$74,558,400.50	4.3%
2020*		\$53,268,000	6.9%		\$73,761,000	6.9%		\$127,029,000	6.9%

In establishing a budget guideline, the Board notes that recent DSM budgets for Union have been a higher percentage of its actual gas distribution revenues than that for Enbridge (3.7% for Union and 2.9% for Enbridge based on actual 2013 gas distribution revenues)<sup>20</sup>. To more appropriately align the efforts of the two gas utilities relative to their overall distribution business, the Board took actual distribution revenues into consideration in establishing the budget guideline.

The LTEP and Conservation Directive also discuss the importance of the Board aligning natural gas DSM efforts with electricity CDM efforts and to implement the government's policy of putting conservation first in electricity distributor and natural gas distributor infrastructure planning processes at the regional and local levels. There is a possibility that infrastructure investments may be avoided or deferred through targeted reductions in the demand for natural gas. However, it is important to note that one major difference between the electricity and natural gas sectors in Ontario is where the energy resources are sourced. A large portion of the electricity needed for the province is generated within Ontario. This differs from the natural gas needed by the province, which is mainly sourced from outside of Ontario, other than that which is available in storage. Therefore, the ultimate goals of electricity CDM and natural gas DSM have differences. Electricity CDM can be related directly to a reduction in the need for future generation and the associated infrastructure. In the Ontario electricity sector, almost all the financial risk with respect to new infrastructure (e.g., generation, transmission and distribution) is borne by Ontario ratepayers, either by way of regulation or long-term commitments by the OPA. Accordingly, avoiding infrastructure investments for electricity generation has a direct impact on the costs borne by consumers. By

<sup>19</sup> 2013 data is not available as both gas utilities have yet to dispose of their shareholder incentive amounts.

<sup>20</sup> Enbridge's 2013 Gas Distribution Margin was \$1,069,000,000 (Source: Audited consolidated financial statements). Union's 2013 Gas Distribution Margin was \$772,000,000 (Source: Annual financial statements).

comparison, in the natural gas sector, deferral of natural gas infrastructure in Ontario through DSM relates only to pipes and related assets (including storage), since the supply of natural gas comes from outside of the province. Therefore, while all the financial risk with respect to transmission, distribution and some storage of natural gas are borne by Ontario ratepayers, this is not true with respect to the commodity, other than with relevant long-term transportation and supply contracts entered into by the distributor. This is an important factor for the Board in considering the alignment of DSM and CDM efforts, especially with respect to the absolute costs that are appropriate for natural gas DSM efforts.

As noted above in Concentric's jurisdictional review, it was found that of the twelve leading US states included in its study, natural gas DSM budgets were approximately 23% of electricity CDM budgets. This finding is consistent to the overall US average as reported by the American Council for an Energy-Efficient Economy ("ACEEE")<sup>21</sup>.

In Ontario for 2013, the natural gas distribution sector had \$4.51 billion<sup>22</sup> in total revenues for 2013 whereas the electricity distribution sector had \$15.85 billion<sup>23</sup> in total revenues. The budget for the Ontario Power Authority's 2015-2020 electricity Conservation First Framework is projected to be approximately \$2.4 billion<sup>24</sup> over six years. The proposal under Option 2 would provide DSM funding in a similar ratio to what has been the experience in the US and to the relative total revenues of the distribution sectors in Ontario.

Additionally, as part of Option 2, the gas utilities would propose annual budgets for each year of the DSM Framework. The Board would expect that the annual budget proposals would transition the gas utilities' 2014 DSM budget levels gradually up to the budget guidelines outlined above in an effort to appropriately mitigate rate impacts.

Option 2 proposes that the Board establish a guideline for the maximum annual DSM budget which takes into consideration the rate impacts to customers. Ultimately, the utility would still have the option of proposing an alternate budget in its application for approval of its DSM Plan to the Board in order to achieve the long-term targets, appropriately supported by evidence.

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<sup>21</sup> American Council for an Energy-Efficient Economy, The 2013 State Energy Efficiency Scorecard, November 2013, Report Number E13K.

<sup>22</sup> OEB 2013 Yearbook of Natural Gas Distributors

<sup>23</sup> OEB 2013 Yearbook of Electricity Distributors

<sup>24</sup> Ontario Power Authority, Conservation First Framework Update, Presentation to SAC, June 24, 2014, posted on the OPA's website

## 5.4 Request for Comment

The Board has proposed two different options for developing DSM budgets. They both consider how the budget will interact with the DSM targets and how rate impacts can be taken into consideration.

Interested parties are invited to comment on these two options. In particular, the Board is interested in responses to the following questions:

- 1) Should the Board provide a budget guideline that sets out the expected maximum DSM budgets?
- 2) If the Board decides to establish a budget guideline, is 6% of 2013 distribution revenue appropriate (plus applicable shareholder incentives)?
- 3) What information, other than what is listed above, should the utilities/Board consider when developing the long-term budgets?
- 4) Is there a different method to establish budgets that the Board should consider?

## 6.0 SHAREHOLDER INCENTIVES

Natural gas utilities are not licensed by the Board. They operate under franchise agreements with the municipalities they serve. Therefore, there is no licence condition mandating that the gas utilities undertake DSM activities. These activities therefore remain a voluntary business function. This differs in comparison to the electricity sector. The electricity distribution companies throughout Ontario have been required, through licence conditions, to achieve certain targets through conservation and demand CDM programs to their customers. Between 2015 and 2020, the licence condition will require that electricity distributors make CDM programs available to their customers. Enbridge and Union are subject to undertakings that restrict their business activities to the transmission, distribution, and storage of natural gas. However, directives to the Board in 2006 dispensed with the undertakings in relation to certain matters, including the provision of services related to the promotion of natural gas conservation.

To effectively motivate the gas utilities to both actively and efficiently pursue DSM savings and to recognize exemplary performance, the Board considers it appropriate to make a shareholder incentive available.

As part of the 2012 DSM Guidelines, the Board made an annual performance incentive of \$9.5 million available to the gas utilities that was developed in relation to their 2011 DSM budgets of \$28.1 million and \$27.4 million for Enbridge and Union respectively. The incentive amount was a continuation of what had been developed and approved as

part of the 2006 Generic DSM Proceeding<sup>25</sup> where the Board established a shared savings mechanism that provided the gas utilities with a return equal to a maximum of 5% of the TRC savings it had achieved.

As part of the 2012 DSM Guidelines, the Board proposed to transition from a strictly TRC-based incentive mechanism to something that allowed the gas utilities to be rewarded for undertaking other important activities, such as an increase in the delivery of long-life energy efficiency measures. Since the current shareholder incentive is not directly a product of a portion of the TRC benefits, the Board determined an amount similar to that which was approved in the past was reasonable, given that the incentive levels in the past resulted in the desired behaviours of the gas utilities actively pursuing DSM and dedicating the necessary resources to achieve the intended goals. As part of the 2012-2014 DSM Plan filings, subsequent budget increases allowed for larger low-income program offerings for both gas utilities, increasing the maximum performance incentive to approximately \$10.5 million for achieving 150% of the DSM targets, a potential for an approximately 30% return in relation to the DSM budget. The incentive for meeting 100% of the target was \$4.2 million.

Table 5 below shows the DSM amounts inclusive of budgets and earned shareholder incentives amounts in 2011 and 2012. In 2012, both utilities exceeded the 100% target level and earned over \$8 million each. Historically, from 2007 to 2012, the incentive amounts paid to the gas utilities has been approximately 30% of their actual spending on DSM.

**Table 6 – DSM Budgets and Shareholder Incentive Amounts<sup>26</sup>**

	Union Gas Limited			Enbridge Gas Distribution Inc.			Ontario Total		
	DSM Budget (\$)	Shareholder Incentive Paid (\$)	DSM Incentive as % of DSM Budget	DSM Budget (\$)	Shareholder Incentive Paid (\$)	DSM Incentive as % of DSM Budget	DSM Budget (\$)	Shareholder Incentive Paid (\$)	DSM Incentive as % of DSM Budget
2011	\$27,355,000	\$8,683,100	31.7%	\$28,074,443	\$6,769,535	24.1%	\$55,429,443	\$15,452,635	27.9%
2012	\$30,954,000	\$8,210,417	26.5%	\$30,910,000	\$8,160,306	26.4%	\$61,864,000	\$16,370,723	26.5%
2013	\$31,641,000	N/A	N/A	\$31,588,200	N/A	N/A	\$63,229,200	N/A	N/A
<b>Average</b>	\$29,983,333	\$8,446,759	29.1%	\$30,190,881	\$7,464,921	25.3%	\$60,174,214	\$15,911,679	26.4%
2020*	\$46,320,000	\$6,948,000	15.0%	\$64,140,000	\$9,621,000	15.0%	\$110,460,000	\$16,569,000	15.0%

<sup>25</sup> EB-2006-0021

<sup>26</sup> 2013 data is not available as both gas utilities have yet to dispose of their shareholder incentive amounts.

## 6.1 Jurisdictional Review

Based on the jurisdictional review conducted by Concentric in relation to the shareholder incentives available in leading US jurisdictions, Ontario's \$4.2 million incentive for achieving the 100% target level was found to be at the higher end of those included in the study. The majority of incentives available for achieving 100% of the assigned targets appear to be in the range of 3.5% to 9% of the DSM budget, with many clustered around 5% of the DSM budget. Michigan is one jurisdiction which allows shareholder incentives to be equal to the lesser of: 1) 15% of the provider's actual energy efficiency program expenditures for the year; or, 2) 25% of the net cost reductions experienced by the provider's customer as a result of the energy efficiency program.

With respect to the approximately \$10.5 million shareholder incentive currently available to Enbridge and Union for achieving 150% of their respective DSM targets, it appears that Ontario's incentive is much higher than any other jurisdiction that Concentric has reviewed. For example, Connecticut allows gas utilities to earn incentives of 8% of the DSM budget for 130% savings.

A study commissioned by the Toronto Atmospheric Fund ("TAF")<sup>27</sup> analyzed maximum shareholder incentives using two different metrics: 1) as a percentage of DSM budget; and, 2) as a percentage of DSM budget normalized for sales. On the first metric, the maximum shareholder incentives in Ontario were found to be very high relative to other jurisdictions while on the second metric, where the incentives are normalized for sales and compared with two US utilities (Massachusetts and Michigan) the current incentives available to Enbridge and Union are comparable.

## 6.2 Discussion of Shareholder Incentive

The Board continues to believe that an annual DSM shareholder incentive remains appropriate as it has led to the achievement of significant results by the utilities in the past. The level of historic shareholder incentives has resulted in DSM becoming a priority with the gas utilities and has achieved the desired shifts in behaviour with the gas utilities offering DSM programs to their customers throughout the province.

As the historic performance incentive model resulted in the desired results of making DSM a priority for the gas utilities, the Board is considering options for how to develop a performance incentive structure for the future of natural gas DSM that will be

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<sup>27</sup> Establishing a Conservation-First Policy for Ontario's Natural Gas Utilities, Toronto Atmospheric Fund, August 11, 2014.

sustainable and strike an appropriate balance between incenting the gas utilities to continue to pursue DSM opportunities and providing a fair return for doing so, while taking into consideration the Board's requirement to approve just and reasonable rates.

Regardless of the incentive structure, the Board is of the view that gas utilities should be rewarded more heavily for results that address the following goals: long-term (or deep) savings; results that address infrastructure deferrals or reductions; co-ordination and integration with electricity CDM activities; and, addressing and avoiding lost opportunities. The Board has also proposed a cost-efficiency incentive option below, enabling the gas utilities to carry forward any unspent DSM funds if they are able to achieve their annual DSM targets without spending the entirety of their approved annual DSM budgets.

Further, as described in Section 4.0 – DSM Targets, performance for various program types should be evaluated using balanced scorecards. As outlined in the 2012 DSM Guidelines and approved as part of the gas utilities' most recent DSM Plans, scorecards should include metrics relative to three levels of performance: a lower band, representing a level of performance less than the target; the target level; and, an upper band, representing a level of exemplary performance beyond the target.

Further, and regardless of the method chosen to determine the total annual incentive pool, the Board's view is that those activities which are more difficult than others, or are delivering on key objectives, warrant a greater share of the incentive. As an example, delivering programs with long-life savings and coordinating and integrating programs with electricity distributors should be allocated a greater share of the total incentive amount available. Other areas which the Board would view as important and deserving of larger incentive dollars include programs that target conservation first in infrastructure planning at the local and regional levels and low-income programs. The program areas that focus on shorter term benefits, large industrial programs and market transformation would be allocated a smaller portion of the incentive pool.

The Board has included two options for how annual shareholder incentives can be determined.

- **Option 1** – the shareholder incentive is determined as a percentage of the gas utility's annual DSM budget.
- **Option 2** – the utilities propose a pay-for-performance funding and incentive recovery model, with applicable programs, which provides both funding recovery

and incentive payments through a single rate (\$/m<sup>3</sup>) to the utility, but only for verified natural gas savings.

## 6.3 Options

### 6.3.1 Option 1: Shareholder Incentive as a Percentage of Annual DSM Budget

Under this option, the Board would set the annual performance incentive available to the gas utility as a percentage of their overall, approved annual DSM budget. The maximum annual performance incentive amount available to the gas utilities throughout the term of the DSM Framework under this option would be equal to 15% of the approved, annual DSM budget. The maximum annual incentive of 15% is separated into two parts:

1. A total incentive equal to a maximum of 10% of the approved, annual DSM budget is available if the gas utility achieves a scorecard weighted score of 100%. The scorecard should provide a higher percentage of incentives for programs that are more challenging to achieve, or that address key objectives that the Board wants to encourage, such as those outlined above. The gas utilities will only start to earn an incentive once the lower band, or 75% of the target, has been achieved.
2. A total incentive equal to a maximum of 5% of the approved, annual DSM budget is available if the gas utility achieves a scorecard weighted score of 150%.

Under Option 1, no incentive will be provided for achieving an annual scorecard weighted score of less than the lower band, which should be 75% of the target.

### 6.3.2 Option 2: Pay-for-Performance Funding/Incentive Mechanism

As outlined in the Minister's letter to the OPA, a cost recovery and performance incentive mechanism for electricity distributors will be developed which provides the electricity distributors with a pre-specified value for each verified kilowatt hour of electricity savings achieved through the delivery of CDM programs. The Board feels it is appropriate that the gas utilities also explore a pay-for-performance funding/incentive option for specific programs.

The pay-for-performance programs will provide both funding recovery and incentive payments to the utility, but only based on verified natural gas savings. The Board will set an appropriate rate (\$/m<sup>3</sup>) that incorporates budget recovery and an incentive

amount/rate of return, which is only payable based on the actual verified cubic meter savings through the delivery of DSM programs.

The pay-for-performance structure will reward the natural gas utilities with higher incentive dollar amounts if actual savings meet or exceed their DSM savings targets. The rate for performance funding set by the Board will take into consideration the challenges and risks associated with the pay-for-performance structure. The central risk for the utilities would be achieving a lower level of projected savings than anticipated and therefore, make the gas utility unable to recover their DSM program costs. This would ultimately leave the utility at a loss as it has administered program funds to enable the delivery of various DSM programs but has failed to achieve the level of natural gas savings necessary to recover its expenditures. Based on the increased level of risk associated with this funding/incentive model, the rate for funding available to the gas utilities for achieving or exceeding the expected results would need to provide a greater overall financial return than the traditional full cost recovery model where the gas utility recovers all of its DSM program related costs.

The Board feels it appropriate that the natural gas utilities explore programs that lend themselves to the pay-for-performance model and include specific considerations within their DSM Plans. Programs could be proposed on a pilot basis.

#### **6.4 Cost Efficiency Incentive**

A component of the shareholder incentive, which the Board is of the view can be made available regardless of the specific option ultimately selected, is a cost-efficiency incentive. Assuming the gas utilities are able to meet their annual natural gas savings targets, the cost-efficiency incentive will provide the gas utilities with greater financial flexibility, as discussed under the budget section, and an incentive to achieve their annual targets while being mindful of the overall cost of DSM programs.

The cost-efficiency component will allow the gas utilities to carry forward and use any unspent, approved DSM budget amounts from one year to the next with no impact on the following year's DSM targets. Essentially, if a gas utility meets 100% of its target for a particular program at a lower cost than anticipated in one year, the gas utilities will be able to carry forward any unspent DSM funds allocated to that program for use in the following year. The funds carried forward would be in addition to the approved budget level for the following year and enable the gas utility to achieve the following year's annual target with the benefit of incremental funds. This is a significant benefit, as the gas utility's targets for the following year were set assuming a lower funding level. If the

gas utility is able to carry forward excess funds into the following year, it has increased its potential to achieve its target and earn a greater shareholder incentive.

At the mid-term review, the Board will review this incentive to determine its efficacy and what, if anything should be done with “unused” funds at the end of 2020.

The key with a cost efficiency incentive is to ensure it works in tandem with the performance incentive, as opposed to conflicting with the performance incentive. The main goal of administering and delivering energy efficiency programs is to achieve energy efficiency gains and energy savings in the market place. It is also important to achieve this goal by using the least amount of rate payer dollars. The Board is of the view that the shareholder incentive should be structured so that the gas utilities’ main incentive is related to achieving its annual targets. In the event the gas utility does not achieve its annual target, it is unable to carry forward any unspent DSM budget amounts to the following year.

## 6.5 Request for Comment

The Board has proposed options for determining the maximum shareholder incentive amount. Either option could provide substantial financial payments to motivate the gas utilities to pursue aggressive natural gas savings targets, and do so conscious of the amount of rate payer funds being used.

Interested parties are invited to comment on these options. In particular, the Board is interested in responses to the following questions:

- 1) Is the proposed shareholder incentive (total of 15% of budget – 10% for achieving 100% of target with an additional 5% for achieving 150%) sufficient to fully engage the gas utilities to deliver significant DSM results from 2015 to 2020?
- 2) Is it appropriate to tie the maximum incentive amount to the DSM budget?
- 3) If you do not agree the incentive amount should be tied to the DSM budget, please provide details for how the maximum incentive amount should be calculated.
- 4) If you do not agree that the Board should administer a cost-efficiency incentive, provide the rationale for this position and what issues the Board should consider.
- 5) What other aspects should the Board consider when developing the shareholder incentive? Why?
- 6) Is a pay-for-performance funding/incentive model appropriate?

## 7.0 PROGRAM TYPES

The Board expects that DSM programs will enable a reduction in both consumption levels and overall demand for natural gas. The Board considers the following components as essential elements to be included in the gas utilities' DSM Plans to enable the achievement of greater long-term natural gas savings, to better help customers manage their overall usage and ultimately their bills, and to meet the government objectives reflected in the Conservation Directive and the LTEP. The list reflects key priorities the Board expects the gas utilities to focus on and transition DSM activities towards over the course of the new DSM framework.

- Provide financial incentives so customers can pursue energy efficient upgrades that will deliver natural gas savings over the long-term;
- Extend programs for low-income consumers across the province;
- Provide expert, value-added technical advice through energy management services;
- Provide educational information on how a customer can use natural gas more efficiently;
- Benchmark energy usage to enable detailed data analysis and comparison of usage with other customers and pre/post program participation;
- Develop on-bill financing options for conservation measures;
- Target initiatives in areas in which new or replacement of natural gas infrastructure is expected to be required, and,
- Integrate and coordinate DSM programs with electricity CDM programs.

The Board has provided a specific discussion of program types in the DSM Guidelines in Section 2.0.

With natural gas DSM programs fully operational in many other jurisdictions, the Board expects that as part of their DSM Plan filings, the gas utilities will include a jurisdictional review in support of any new programs they are proposing to ensure these programs have resulted in the intended benefits and achieved the expected results. The gas utilities should strive to build on experience of other leading jurisdictions to ensure that program offerings throughout the province are those which will provide customers with the greatest value for rate payer dollars and meet the long-term DSM targets in the most efficient manner. Further, the gas utilities' review of best industry practices should outline any key observations and trends amongst the jurisdictions included in the review.

## 7.1 Request for Comment

In the draft DSM Framework and companion DSM Guidelines, the Board has outlined the direction it feels the gas utilities should transition DSM activities throughout the new DSM term. Interested parties are invited to comment on the following questions:

- 1) Should the Board consider other program options in addition to those listed in the draft DSM Framework and draft DSM Guidelines? If yes, please outline which programs are appropriate and why.
- 2) What level of funding is appropriate for low-income programs relative to the overall DSM budget?
- 3) Are DSM programs for large volume customers appropriate and should both gas utilities be permitted to offer these programs?

## 8.0 PROGRAM EVALUATION

Evaluation, Measurement and Verification (“EM&V”) is the process of undertaking studies and activities aimed at assessing the impacts (e.g., natural gas savings) and effectiveness of an energy efficiency program on its participants and/or the market. Monitoring and EM&V also provides the opportunity to identify ways in which a program can be changed or refined to improve its performance. It is important to ensure proper EM&V studies are being undertaken to enable the pursuit of cost-effective DSM programs. Moreover, EM&V of DSM activities is important to support the Board’s review and approval of prudent DSM spending, and requests to recover lost revenues and shareholder incentive amounts claimed by the gas utilities.

Traditionally, the evaluation process related to DSM programs has been a function that the gas utilities have managed, with input from key stakeholders included throughout the process. Recently, final program results have been challenged by stakeholders leading to longer adjudicative processes to determine the results applicable to the disposition of incentive and lost revenue amounts for both gas utilities. In order to increase transparency, objectivity and efficiency in final program evaluation results, the Board is of the view that it is in the best position to coordinate the evaluation process throughout the DSM Framework period (i.e., 2015 to 2020).

By taking on the coordination function of the EM&V process, the Board can ensure an open process, where it consults with both the gas utilities and stakeholders at appropriate junctures in the process, seeking input on evaluation methodologies, key program features to ensure that the operational characteristics of the program generate the data and information that will provide the greatest assistance, and ensure that the

evaluations are robust and accurate. The Board will conduct annual evaluations to verify that programs have resulted in the intended benefits and to inform future program design and delivery.

In taking a more central role in the EM&V process, the Board will ensure that it is conducting an appropriate level of oversight of the framework at the back end of the process as well as establishing expectations at the front end of the process.

In addition to the annual evaluations of program results, which the Board will be publishing every year, the Board is of the view that on a periodic basis (e.g., every three years), it will be helpful and informative for the Board to conduct multi-year impact assessments of selective gas utility DSM programs. The impact assessments will analyze program data which span multiple program years and investigate the success and actual effects of the programs in the marketplace, looking at areas such as whether energy efficiency measures were actually installed, stayed installed and if they have had the intended effect of reducing overall consumption levels. These periodic assessments will not have retroactive impacts, but could be used in future program design and delivery.

For screening and evaluation of programs, free ridership, spillover effects, attribution and persistence of savings should be taken into consideration. The technical details of these are detailed in the DSM Guidelines in Section 4.2.

## 8.1 Input Assumptions

In order to effectively estimate the amount of energy savings achieved through the delivery and implementation of DSM programs, the gas utilities rely on a set of approved engineering assumptions that represent the best available information regarding various characteristics of an energy efficient technology (e.g., life cycle, energy usage level, gas savings etc.). Energy efficiency assumptions are included in the calculations conducted by gas utilities to determine which programs produce more benefits than costs (or are deemed to be cost-effective). The Board is of the view that it should impart its objectivity and coordinate the process of annually updating the Technical Review Manual which contains the specific assumptions related to a number of different energy efficient technologies and measures. The Board was involved in developing input assumptions in 2009 when it engaged an expert consultant to assist in updating the input assumptions list at that time<sup>28</sup>. Technical details of how the Board

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<sup>16</sup> Measures and Assumptions for Demand Side Management (DSM) Planning, Navigant Consulting Inc., April 16, 2009.

proposes to undertake annually updating input assumptions are included in the DSM Guidelines in Section 3.1.

## 8.2 Screening

In order to determine which DSM programs should continue as part of the gas utilities' DSM Plans, the gas utilities should assess their programs using a screening process to test the cost-effectiveness of delivering the program. The Board is of the view that the gas utilities should screen all prospective programs using the Total Resource Cost ("TRC") test. The TRC test measures the energy related benefits and costs of DSM programs experienced by both the gas utility system and program participant for as long as those benefits and costs persist. In addition to the TRC test, the gas utilities should also use the Program Administrator Cost ("PAC") test as a secondary reference, which can assist with prioritizing which programs deliver the most effective results. The PAC test measures the gas utilities' avoided costs and the costs of DSM programs experienced by the gas utility system. The gas utilities should identify the programs that pass the TRC test but fail the PAC test and discuss the reasons the programs are still appropriate.

The implementation of DSM programs could result in environmental and other non-energy benefits to the utility or the program participant. These benefits could include reduction in air pollution including greenhouse gas emissions, utility benefits such as reduction in collection costs and bad debt expenses or program participant benefits such as employment, improved comfort, increased building durability, quieter equipment operation, improved aesthetics, reduced waste and improved business productivity.

As noted above, under the current DSM framework, the TRC test includes energy related benefits. The Board plans to continue to use the TRC test in this manner in the new framework.

Technical details of DSM program screening, including the TRC and PAC test calculations are outlined in Section 3.2 of the DSM Guidelines.

## 8.3 Avoided Supply Costs

Successful implementation of DSM programs should ultimately lead to the gas utilities avoiding costs related to not having to purchase, or provide, an extra unit of natural gas. Avoided costs will also result from reduced demand for other resources such as electricity, heating fuel oil, propane or water through DSM programs. Avoided supply costs should be a consideration when conducting cost effectiveness calculations of

potential DSM programs. As discussed below in Section 11, the gas utilities should discuss how they consider avoided supply costs when conducting their infrastructure planning for future capital projects. Details are provided within the DSM Guidelines in Section 3.3.

## **9.0 DEFERRAL AND VARIANCE ACCOUNTS: RECOVERY AND DISPOSITION OF DSM AMOUNTS**

The Conservation Directive requires the Board to have regard to ensuring that lost revenues are not a disincentive to the utilities undertaking DSM activities. The Board will continue with an LRAM Variance Account for this purpose. Details of this account and other continuing deferral and variance accounts are documented in Section 5 of the draft DSM Guidelines.

## **10.0 INTEGRATION & COORDINATION OF DSM AND ELECTRICITY CONSERVATION PROGRAMS**

Coordination and integration of DSM programs with electricity distributor or OPA CDM programs should be pursued to achieve efficiencies and convenient, integrated programs for electricity and natural gas customers, where appropriate. By combining efforts in key program areas, it should allow greater possibilities for an increase in total combined energy savings at reduced program delivery costs and administrative overhead.

Coordination should take place at the design stage of a program whereas integration should take place primarily at the delivery stage of the program. Coordination efforts should ensure consistent program design including areas such as definition of goals, marketing, training, customer rebates and metrics. Integration should achieve consistency in delivery services of a program, which in most instances will result in a central delivery agent providing both electricity and natural gas offering. Coordination and integration should be a primary consideration when the gas utilities are designing and developing all program offerings to ensure the efficient use of program costs, enhance the reach of all programs to a greater number of customers, ensure that customers receive the same information regarding energy conservation and energy efficiency upgrades, achieve efficiencies in customer participation and allow for greater possibilities to transform the market.

The Board is of the view that it is likely most beneficial for the gas utilities to pursue coordinated and integrated efforts with electricity CDM programs when designing and delivering low-income and market transformation programs, mass market programs,

and home/building retrofits that will result in long-term savings. These programs require consistency in messaging, operations and the involvement of many parties. In order to ensure all are striving for the same goal, it is very important that the gas utilities make their best efforts to coordinate their activities with the electricity distributors and the OPA.

As a result of the intended benefits discussed above, the Board expects that the gas utilities should review experiences in other jurisdictions and discuss how they have incorporated the best practices with respect to coordinating and integrating DSM and CDM program design and delivery into their DSM Plans. The gas utilities should also provide specific evidence showing how the elements of their proposed programs can be integrated with CDM programs and coordinated with electricity distributors and/or the OPA.

For consistency purposes, the Board will monitor the developments of how the OPA plans to address integrating and coordinating electricity CDM programs with natural gas DSM programs and govern the gas utilities future DSM offerings accordingly.

## **11.0 FUTURE INFRASTRUCTURE PLANNING ACTIVITIES**

In order for the gas utilities to fully assess future distribution and transmission system needs, and to appropriately serve their customers in the most reliable and cost-effective manner, the Board is of the view that DSM should be considered when developing both regional and local infrastructure plans. This is consistent with the direction outlined in the LTEP and the Conservation Directive, which state that the Board shall take steps it considers appropriate towards implementing the government's policy of putting conservation first in electricity distributor and gas distributor infrastructure planning processes at the regional and local levels, where cost-effective and consistent with maintaining appropriate levels of reliability.

Further, the Board is of the view that the gas utilities should each conduct a study, completed before the mid-term review of the DSM Framework and based on a consistent methodology, to determine the appropriate role that DSM may be able to serve in future system planning efforts. As part of the long-term DSM Plan filings, the gas utilities should propose an appropriate transition plan to implement DSM as part of its future infrastructure planning efforts. At a minimum, the gas utilities should provide evidence of how DSM has been considered as part of all leave to construct applications made with the Board. This work may be informed, or influenced by other related consultations to be initiated by the Board.

## 12.0 STAKEHOLDER CONSULTATION

Consistent with the Board's consumer-centric approach, the gas utilities are expected to engage their stakeholders and conduct meaningful consultations to gather input and feedback on prospective DSM programs and other relevant areas of the DSM Plans. The Board will not mandate the nature of this consultation, but will expect details to be provided in any application for approval of DSM Plans.

The Board has outlined various options earlier in this report where its involvement in the process at the front end (i.e., undertaking potential studies, developing targets) and back end (i.e., program evaluations) of the DSM framework would be expanded. Although the Board's role will be increased, the Board continues to see the direct involvement of all key stakeholders, including the gas utilities and intervenors, to be critical to ensure proper program development, approval and evaluation. The Board also intends to continue to seek ongoing input in all major areas of the DSM Framework as appropriate.