

June 23, 2019

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ONTARIO ENERGY BOARD

Dear Ms. Walli

RE: EB 2019 0003

This letter is to comment on EB-2019-0003, as invited in the Board's May 21, 2019 letter: "Written comments from interested parties on the three specific issues outlined below are due by **Thursday, June 27, 2019.**"

I am not applying for a cost award. My comments follow from my letter of October 13, 2014 pursuant to **EB-2014-0134. The main suggestion that I put forward is that the Board should apply its adoption of a consumer-centric approach to natural gas DSM by a radical departure from previous programs. The central principle should be consumer willingness-to-pay for Demand-Side Management (DSM) services.**

This submission is organized as follows. First I comment on the three issues identified in the Board's letter. I then provide a brief rationale for the new approach that I suggest and conclude with summary recommendations.

Specifically my submissions are as follows:

- 1. Principles:** Do the guiding principles from the 2015-2020 DSM Framework remain appropriate? If not, what principles are needed and why?

In his letter to the Board dated March 21, 2019, the Minister of Energy

indicates that he expects the reorganized Board to adopt the following principles: independence, accountability, certainty, effectiveness and efficiency. The Board should conduct its own review of the 2015-20 Framework (“Framework”) in the light of these principles. My comments are as given below:

Independence: The Framework is inconsistent with the principle of independence. The natural gas distributors (now distributor) are both the seller and not-seller of natural gas. This clearly not a situation in which the distributor can act independently in its role as seller of natural gas nor in its contrary role as a seller of “savings” in natural gas consumption.

Accountability: Likewise the Framework is inconsistent with this principle. There is no accountability to the customers who foot the bill. This is a direct consequence of the Cheshire Cat effect. Briefly, what is actually known is a consumer’s usage (the grin) from which “savings” (the body) is inferred. I refer the Board to my 2014 letter for a more detailed explanation.

Certainty: The Framework is also inconsistent with this principle. The “savings” from DSM are not at all certain. They are guesses of what measured usage would be against a presumptive baseline.

Effectiveness: As a result of the lack of certainty, the past DSM programs’ effectiveness is indeterminate.

Efficiency: For the same reason that effectiveness cannot be determined neither can efficiency. For example, two of the Framework principles have built-in tradeoffs.

#2 says “Achieve all cost-effective DSM that result in a reasonable rate impact”, while #5, says “Design programs so that they achieve high customer participation levels”. It is not possible to achieve high customer participation cost effectively (in terms of rare impacts) without taking into account customer willingness to pay.

2. Goals and objectives: What should be the primary goal(s) and objective(s)

of the post-2020 DSM Framework?

~~The primary goal of the new DSM framework should be to provide individual~~

consumers with efficiency savings opportunities for which they are willing to pay. This is in contrast with the past, which socialized the costs of DSM across all consumers, including those who did not participate in the programs.

My suggestion is not to set objectives (targets). If individual consumers choose to buy “savings” rather than natural gas the market will ensure that the resulting aggregate savings are economically efficient. The Cheshire Cat effect precludes accurate determinations of the achievability of targets.

However, if the Board does decide to set targets I recommend that those targets take account of the full range of available data (which goes back more than 20 years) and the use of retroactive studies of participants and non-participants, as suggested in my comments on EB-2014-0134. I enlarge a little on those comments by suggesting that such analyses need to address the differences among the main consumer classes; large industrial, small industrial, large building owners, small building owners, and residential.

- 3. Scope:** Should the OEB undertake major revisions to the 2015-2020 DSM Framework or focus on specific updates that are more minor in nature?

Yes, the Board should make major shift from regulated fiat to customer-driven DSM.

As an early advocate of energy efficiency, including a role in the development of Ontario’s **Energy Efficiency Act** in 1987, I have concluded that after more than 30 years the original public policy rationale for publicly funded energy efficiency programs has weakened considerably. Specifically, for on-bill utility financing of energy efficiency measures (now known as DSM or Conservation and Demand Management, CDM) the rationale has collapsed completely. The public policy

rationale is based on the theory of “market failures”. This theory holds that public intervention may be desirable where market failures exist. For example, where there is monopoly there is a case for regulated prices to prevent gouging. Public support for energy efficiency programs may be based on two types of perceived failure: imperfect information; and the cost of capital. Under this approach under-spending on energy efficiency may result from consumers’ ignorance of the value of energy efficiency and from the lower cost of capital for supply options.

Thirty years ago it was plausible that consumers were unaware of the potential to reduce their energy costs by buying more efficient products. This view, I suggest, is no longer plausible, after years of government spending on information and utility DSM/CDM programs. The cost of capital argument mistakes the nature of the spending decisions of consumers versus natural gas distributors. Decisions on supply infrastructure are the entire focus of the business of natural gas utilities but the energy usage of products bought by consumers is only one aspect of the consumer decision. It is unreasonable to try to equalize the cost of capital across these differing types of decision. This is not to say that government has no role but it should be restricted to the setting of building and appliance standards and, where appropriate, Research and Development. Indeed, it is the existence of these past programs that is part of the reason that we cannot accurately infer the size of the Cheshire Cat’s body from its smile, i.e. how much natural gas savings may be attributed to DSM and how much to standards?

Despite government programs there are private Energy Service Companies (ESCOs), which sell “savings” to willing customers. These companies predominantly service the commercial sector but there is no reason why they could not succeed in other sectors if the rivalry of DSM programs, underwritten by regulatory fiat, were eliminated.

Recommendations

Hence, going forward, beside the five principles in the Minister’s letter I suggest an

additional principle:

~~Provide only DSM for which individual customers are willing to pay~~

A supplementary principle is:

Where possible, use the services of private ESCOs.

With regard to objectives, I recommend that no targets be set. If targets are set they should be based on all of the data available (20+ years) and retrospective analyses of participants and non-participants in DSM programs. Any targets should be set for specific consumer types: large and small industrial; large and small building owners; and residential.

All of which is respectfully submitted.

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