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ON BEHALF OF

OPTION CONSOMMATEURS

PRESENTED IN THE CASE OF

SOCIÉTÉ EN COMMANDITE GAZ MÉTRO'S REQUEST

RELATIVE TO THE INTEGRATION OF THE FEÉ PROGRAMS WITHIN THE PGEÉ FOLLOWING DECISION D-2010-116

FILE R-3790-2012

RÉGIE DE L'ÉNERGIE

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1. MANDATE

Following the filing by Société en commandite Gaz Métro (SCGM or Gaz Métro) of a request relative to the integration of the FEÉ programs within the PGEÉ following Decision D-2010-116, Option consommateurs (OC) retained our services in order to assist OC with during its representations before the Régie and to produce an analyst report within the context of the case. The report focuses on the new approach proposed by SCGM to address the energy efficiency (EE) needs of the lower-income (MFR) market.[1] Specifically, we will review the proposals for supplementary assistance (*bonification*) programs proposed for both the Residential and CII markets.

2. INTRODUCTION

This analyst report will first summarize OC's interest in the implementation of MFR EE programs (in Section 3). Section 4 provides the historical and regulatory context for the new approach to MFR EE. Section 5 summarizes our understanding of Gaz Métro's proposal for a new approach to MFR EE programs. In Section 6, we provide comments on Gaz Métro's proposal, including Strengths, Areas of Concern and Weaknesses. Finally, Section 7 contains OC's recommendations in this case.

3. OC'S INTEREST IN THE IMPLEMENTATION OF MFR ENERGY EFFICIENCY PROGRAMS

OC has a long history of interest in promoting and improving LIEE (Lower-Income Energy Efficiency) in Quebec and has intervened before the Régie on several occasions on LIEE proposals set out by SCGM, the FEÉ and Hydro-Québec.

[1] For the purposes of this paper, the MFR market is defined as MFR and socio-community organizations (*organismes sociocommunautaires*).

OC's interest in the implementation of MFR energy efficiency programs, and specifically in SCGM's new approach to MFR energy efficiency, can be summarized as follows:

- to better serve the MFR market by providing MFR direct clients (*clients directs*) and MFR non-client users (*utilisateurs non-clients*) with the opportunity to participate in EE programs;
- to achieve significant energy savings while improving the comfort, health and quality of life of MFR gas users;
- to use the new approach to also build the capacity to subsequently implement **broad comprehensive targeted MFR programs**. Such programs include both shallow and deep measures, and are made broadly available to MFR gas users in order to achieve widescale MFR participation. As will be discussed in Section 7 on Recommendations, such programs are considered best practices in jurisdictions with high levels of EE, and specifically LIEE spending.

4. CONTEXT FOR THE NEW APPROACH TO MFR ENERGY EFFICIENCY PROGRAMS

4.1. MFR Program History and Regulatory Context

Neither the FEÉ nor SCGM's PGEÉ has ever implemented broad, comprehensive[2] programs, specifically targeting MFR households. In R-3596-2006, OC filed evidence on the need for such programs in both the FEÉ and the PGEÉ.

> OC souligne la raison pour laquelle nous priorisons la conception de programmes complets visant la clientèle à faible revenu. Si nous ne créons pas des programmes ciblés pour cette clientèle, cette dernière a tendance à être

[2] Comprehensive programs include two main groups of measures: (a) building envelope measures (including both deep and shallow weatherization measures); and (b) basic or extensive in-unit measures. Examples of basic in-unit measures include those undertaken as part of the Éconologis home visit program, such as hot water tank insulation, whereas more extensive in-unit measures would involve the replacement of appliances and equipment. Typically, comprehensive programs take a whole-unit or whole-building approach and lower transactional burden for the MFR household.

> systématiquement exclue des programmes réguliers en efficacité énergétique en raison de ces barrières de marché spécifiques. Ces barrières se rapportent à la motivation, à l'accès aux informations et à l'accès aux ressources financières. Elles incluent, entre autres, un taux d'actualisation très élevé, un manque de liquidité et la tendance à être locataire.[3]

OC emphasized that if SCGM failed to address the problem of MFR non-participation by means targeted MFR programs, the Distributor was encouraging a perverse revenue transfer: MFR clients were in fact subsidizing the costs of the PGEÉ program while being excluded from the advantages of participation, notably via reduced energy bills.[4] OC also indicated that proportion of MFR EE spending in the 2006-2009 combined total budgets for the PGEÉ and the FEÉ was at an unacceptable level of 1.73%.[5]

In D-2006-140 (p. 37), the Régie ruled that (our underlining; boldface in original citation):

> Vu la faible proportion du budget alloué à la clientèle des ménages à revenu modeste dans le cadre du PGEÉ, la Régie invite SCGM à faire plus d'efforts à cet égard. Le fait que la mission du FEÉ cible les ménages à revenu modeste ne justifie pas que ces derniers ne soient pas visés spécifiquement par le PGEÉ. <u>La Régie considère que cette clientèle spécifique doit être ciblée par une intervention distincte pour assurer sa participation.</u> Dans un contexte où la stratégie énergétique du gouvernement du Québec insiste sur l'importance d'intégrer la clientèle des ménages à revenu modeste aux efforts d'efficacité énergétique, **la Régie demande à SCGM, en collaboration avec les intervenants concernés, de développer une nouvelle activité, intervention ou approche qui soit destinée à cette clientèle et d'en faire rapport dans le cadre de l'approbation du budget 2008.** Il importe cependant que SCGM collabore avec le FEÉ afin d'éviter les dédoublements possibles.

In response to the Régie's directive, SCGM filed an MFR action plan in 2007[6] and then a market study in 2008 in order to better understand the MFR clients[7]. During the same period, under the last approved incentive mechanism negotiated in April 2007 (and

[3] R-3596-2011, C-3-12, OC Analyst Report, p. 2.
[4] R-3596-2011, C-3-12, OC Analyst Report, p. 2.
[5] D-2006-140, p. 37 and R-3596-2011, C-3-12, OC Analyst Report, p.16.
[6] D-2007-116, pp. 17-18.
[7] R-3662-2008, GM-10, Doc 1, pp. 15-25.

expiring on September 30, 2012), a percentage of at least 13% of the overall annual budget of the PGEÉ and FEÉ, attributed to residential customers, was to be reserved for programs targeting MFR clients.

Unfortunately, since 2006, the situation has not improved, and has in fact gotten worse in the context of MFR participation in SCGM's PGEÉ. Indeed, the limited number of existing piecemeal MFR programs within the PGEÉ are ineffective and do nothing to serve the MFR market or to achieve energy savings. SCGM's Annual Report for 2010-2011 indicates that only <u>two lower-income consumers</u> participated in the PGEÉ's MFR programs in 2010-2011 for a total energy savings of 280m^3. The total MFR PGEÉ budget for the same year was $75,356 or **0.61%** of the total 2010-2011 PGEÉ budget ($12.3M).[8] Moreover, SCGM projects that total MFR spending for 2012-2014 ($196,680) will constitute 0.58% of the total projected 2012-2014 PGEÉ budget ($37.2M) with only 15 participants annually (or 45 participants over 3 years). These results are a clear indication of a failure on the part of the PGEÉ to identify, target and serve the MFR market in any meaningful way. In contrast, we note that in Ontario, the OEB has set out the following in its Demand Side Management Guidelines for Natural Gas Utilities:

> The Board is of the view that the low-income DSM budget should be funded from all rate classes, to be consistent with the electricity conservation and demand management framework, as well as the LEAP Emergency Financial Assistance program.
>
> The annual low-income DSM budget shall be no less than 15% of the natural gas utilities' total DSM budgets. Accordingly, the minimum low-income budgets for 2012 will be $4.2 million [footnote 20 in citation: Enbridge's total DSM budget $28.1M*0.15 = $4.2M] and $4.1 million [footnote 21 in citation: Union's total DSM budget $27.4M*0.15 = $4.1M] for Enbridge and Union respectively.
>
> The natural gas utilities' total DSM budgets may be increased by up to 10%, provided the funds are solely used to support low-income programs. [footnote 22 in citation: This is would represent an incremental amount to the natural gas utilities total DSM budgets of 1.5%] This means the total DSM budget for

[8] R-3782-2011, GM-12, Doc 3, Tableau I : Rapport de suivi et d'implantation du PGEÉ 2010-2011, p. 49

> Enbridge may be increased by $2.81 million and by $2.74 million for Union. This funding increase will be considered incremental to the natural gas utilities' total DSM budget and is not cumulative.[9]

In light of the continuing failure of the PGEÉ programs to serve MFR clients (after years of discussion), it was agreed in the context of the last Working Group for the 2011-2012 PEN that (our emphasis):

> Le Groupe de travail est préoccupé du fait qu'en 2010-2011(« réalisations 5 mois », Gaz Métro-9, Document 2, page 2), la totalité des programmes des ménages à faible revenu (MFR) ont un taux de participation de zéro. Par ailleurs, ces mêmes programmes ont une projection de seulement 15 participants par année pour les années 2011-2012, 2012-2013 et 2013-2014. (Ce qui se traduit à plus de 11 600 $ dépensés par participant ou environ 22 % du budget résidentiel par année en moyenne). Tout en étant sensible aux nombreuses difficultés à implanter des programmes ciblant la clientèle à faible revenu, le Groupe de travail note que les programmes proposés résultent en très peu d'économies énergétique (sic) sans toutefois alléger la facture des MFR. Au contraire, les MFR subissent les impacts tarifaires des programmes du PGEÉ sans accéder aux bénéfices provenant de la participation dans ces programmes.
>
> <u>Le Groupe de travail s'entend pour que Gaz Métro s'engage à améliorer cette situation dès l'année 2011-2012 en concentrant davantage ses efforts auprès des propriétaires de logements multilocatifs privés</u>, ainsi qu'auprès d'associations de propriétaires et de coopératives d'habitation, tout en poursuivant « la nouvelle approche pour les ménages à faible revenu » présentée lors de la rencontre de consultation du 3 février 2011 (Gaz Métro-9, Document 4), le tout sans modifier le budget du programme PE-136, sensibilisation faible revenu.
>
> […]
>
> Le Groupe de travail s'entend pour que <u>Gaz Métro s'engage à amorcer dès cette année la résolution des problématiques de participation des ménages à faible revenu au bénéfice des activités et des programmes en efficacité énergétique qui</u>

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[9] Demand Side Management Guidelines for Natural Gas Utilities, EB-2008-0346, June 30, 2011, pp. 26-27. http://www.ontarioenergyboard.ca/OEB/_Documents/Regulatory/DSM_Guidelines_for_Natural_Gas_Utilities.pdf

<u>concernent, en particulier : 1. les usagers non clients; 2. les MFR locataires et propriétaires clients de Gaz Métro</u>.[10]

In its decision related to SCGM's 2011-2012 rate case, the Régie acknowledged SCGM's commitment with respect to EE programs targeting MFRs.[11]

This commitment was further developed in the proposed incentive mechanism, which is currently being deliberated by the Régie. The proposed mechanism also bases its approach on SCGM's 2008 MFR market study,[12] which indicates that the majority of lower-income consumers are in fact non-client users living in rental accommodation (i.e. bulk-metered tenants). As such, the proposed incentive mechanism recommends that eligibility to these programs be extended to commercial landlords of these bulk-metred tenants. Owners of residential or commercial buildings could receive assistance covering 100% of the incremental cost of high-efficiency equipment. The proposal further suggests means of protecting tenants from rent increases and specifies that the financial aid would be proportional to the number of MFR tenants in a multi-unit building, heated by natural gas.[13]

The FEÉ, which has a specific mission to serve MFR clients, spent only $86,580 or **2.8%** of its total budget of $3.1M on MFR programs, according to SCGM's 2010-2011 Annual report.[14] 233 MFR households benefitted from the FEÉ's MFR programs, of which the vast majority (227) were assisted in the PS 120 program, which provides energy efficient renovation to social housing and coops. We note however that despite the higher than projected MFR unit participation rates, PS 120 has achieved only 29% of the forecast energy savings, partly due to the fact that the number of participating organizations (and by implication buildings) – 9 in total – was much lower than

[10] R-3752-2011, Phase 2, B-0122, GM-2, Doc 3, Demandes du Groupe de travail, pp 1-2. In Régie's subsequent decision, D-2011-182, it approved the Report of the Working Group and acknowledged SCGM's commitment with respect to EE programs targeting MFRs (p. 17).
[11] D-2011-182, p. 17.
[12] See footnote 7.
[13] Mécanisme incitatif proposé par Gaz Métro à la phase 2 du PEN – R-3693-2009, B-48, GM-1, Doc 2, pp. 23-24.
[14] R-3782-2011, GM-12, Doc 4, Table 1 – Résultats en termes de participation, de contributions et d'économies d'énergie pour l'année 2010-2011, p. 13.

expected.[15] Moreover, based on the FEÉ's website, PS 120 does not appear to be a comprehensive program (as defined in this report and in LIEE best practices) since the measures include only weatherization measures (window and glass door replacements or reconditioning, attic wall and basement insulation and building caulking). There are no basic or extended in-unit measures listed (such as equipment or appliance replacement).[16] Nor is the program broadly available to all MFR households. Based on SCGM's 2008 study results, OC estimates that only 10.5% of MFR gas users (including clients and non-client users) live in social housing and coop buildings.[17]

Despite the underperformance of the FEÉ MFR programs, we note that the FEÉ helped over 100 times more MFR households than the PGEÉ for almost the same spending level. Furthermore, the FEÉ MFR program achieved actual energy savings of 35,962 m^3 in 2010-2011 or 128 times more savings than the 280 m^3 saved in the PGEÉ program in the same year.[18]

Nonetheless, OC concludes that neither the PGEÉ nor the FEÉ has provided adequate MFR program offerings, in terms of participation levels, funding, accessibility or comprehensiveness of targeted programs. We strongly emphasize that a new approach to LIEE at SCGM is long overdue.

4.2. Summary of Key Results of 2008 Study

The key results of SCGM's 2008 MFR market study[19] are worth revisiting in the context of R-3790-2012 for several reasons:

[15] R-3782-2011, GM-12, Doc 4, p. 16.
[16] http://www.fee.qc.ca/en/social-community/energy-efficient-renovations.php
[17] According to the study (R-3662-2008, GM-10, Doc 1, pp. 15-16), 89% of MFR households are renters. 91% of these renters live in buildings with more than one unit (2, 3 and more). Of these renters, 3% live in coops and 10% in HLM (*habitation à loyer modique*), which we translate as social housing. 89% x 91% x 13% = 10.5%
[18] R-3782-2011, GM-12, Doc 4, Table 1, p. 13 and GM-12, Doc 3, Tableau I : Rapport de suivi et d'implantation du PGEÉ 2010-2011, p. 49.
[19] See footnote 7.

- Gaz Métro's new approach to MFR programs is based on the direction set out in the proposed Incentive Mechanism regarding MFRs. This Incentive Mechanism specifically states that it was "inspired by the results" of the MFR market study.[20]

- Orientations from the proposed incentive mechanism regarding broadening of the MFR offerings to include landlords and non-client users are also based on this study.[21]

- Gaz Métro does not appear to have conducted any other studies on MFR clients since 2008, nor undertaken any other consultations with landlords in the context of the new MFR approach; so the 2008 MFR market study is the best and most recent information on this client group available.[22]

Key findings from SCGM's 2008 MFR market study that are particularly relevant for this case are the following:

- The vast majority of MFR respondents were renters (89%) – with the remaining 11% being owners.

- 91% of the MFR renters (i.e. 81% of all MFRs) live in buildings with more than one unit (2, 3 and more).

- Of these multi-unit renters, only 3% live in coops and 10% in HLM (*habitation à loyer modique*), which we translate as social housing. Therefore, as concluded in footnote 17, only all 10.5% of MFRs live in coops or social housing

[20] GM-1, Doc 1, p. 25.
[21] GM-1, Doc 1, pp. 25-26.
[22] GM-2, Doc 8, Answer to OC IRs, 4.1 (p. 5); 4.61 p. 8; GM-2, Doc 5, SCGM Answer to ROEÉ IR 3.1, pp. 4-5.

- In contrast, 82% of multi-unit renters live in private buildings (i.e. 66% of all MFRs) and 73% of MFR multi-unit renters buildings with more than 11 units (i.e. 59% of all MFRs).

- 87% of MFR renters are bulk-metered, i.e. non-client users (i.e. 77% of all MFRs).

- Immigrants comprise a "strong proportion" of the MFR population.

- The typical MFR natural gas users are described as follows: renters from Montreal or the surrounding area, living in a private bulk-metered building with 11 units or more. They engage in energy-intensive behaviours such as leaving windows open in winter to regulate heating and do not use the services of community-based organizations. There are many immigrants in this group.

- The study's Table on p. 18 (*Estimation de la population de MFR dans les immeubles résidentiels à gas naturel*) estimates that SCGM services 345,984 residential natural gas users, of which 113,973 (33%) are direct clients. SCGM estimates that the remaining 67% (in multi-unit buildings and coops) are non-client users.

- 24% of SCGM residential clients are estimated to be MFR, whereas 46% of non-client gas users, living in gas-heated buildings, are estimated to be MFR. Therefore the study concludes that there are 27,354 MFR direct clients (or 20% of MFR gas users) and 108,725 non-client gas users (80% of MFR gas users).[23]

[23] We note that the study was using the Statistics Canada Low Income Cut-Off (LICO) from 2005 to define MFRs. If SCGM were to use LICO + 15% as proposed in this case, the MFR gas users numbers would be somewhat higher.

- When non-client gas users are considered, 38.7% of SCGM's natural gas users (a weighted average of residential MFRs and non-client gas users) are MFR.

What is striking about the study results is that Gaz Métro's MFR clients are highly concentrated in larger multi-unit commercial buildings and that the vast majority of these buildings are bulk-metered (close to 90%). And in fact, close to 80% of all MFR gas users are in bulk-metered buildings. This sheds light on why the PGEÉ programs have failed to attract MFR participation: the existing PGEÉ residential MFR programs target direct clients, which represent only 20% of the MFR population. Moreover, these programs may be biased towards MFR homeowners, who represent only 11% of the MFR population. The FEÉ programs appear to mainly serve MFRs in social housing, who represent about 10.5% of all MFRs.

While reaching the majority of MFR users who live in bulk-metered larger private buildings has its challenges, the clustering of these users in bigger buildings also presents some opportunities. As will be discussed in the Recommendations in Section 7, a well-considered approach to reaching these users should leverage this clustering in order to deliver broad and comprehensive MFR-targeted program offerings.

While the results of the study may be somewhat out of date, and the study methodology may be imperfect, the key conclusions are striking in terms of the preponderance of MFR users in bulk-metered larger buildings. So even allowing for some inaccuracy, OC believes that the study results are adequate to support a new approach that would better address MFR renters in general, with a particular concern for the bulk-metered non-client users.

5. GAZ MÉTRO'S PROPOSAL FOR A NEW APPROACH TO MFR ENERGY EFFICIENCY PROGRAMS

In this section, we will summarize our understanding of the proposal.

At a high-level, what SCGM appears to be proposing is to simply piggyback additional MFR financial aid (*bonification*) onto four[24] surviving non-MFR-specific Residential and CII FEÉ programs, which are being transferred to the PGEÉ. Thus, we understand SCGM's "new approach to MFR EE programs" as the inclusion in the PGEÉ of the new *bonification* programs and the FEÉ programs eligible for *bonification*.

This *bonification* is available to landlords of residential and CII buildings with MFR tenants (regardless of whether they are bulk-metered or not) on a pro-rata basis determined by the number of participating MFR units. The *bonification* is also available to homeowners and residential building owners, who are lower-income themselves.

The two Residential programs eligible for the Residential *Bonification* program are:

- PE 124 Energy Star Windows or *Fenêtres Energy Star* (formerly PR 330 in the FEÉ)
- PE 125 Drain water heat recovery or *Système de récupération de la chaleur des eaux de drainage* (formerly PR 340 in the FEÉ).

The three CII programs officially eligible for the CII *Bonification* are:

- PE 233 Energy efficient renovations or *Rénovation écoénergétique des bâtiments* (formerly PC 420)
- PE 234 Solar air or water heating system or *Système de préchauffage solaire de l'air ou de l'eau* (formerly PC 440)
- PE 232 Financial assistance for new efficient buildings or *Aide à la construction de nouveaux bâtiments efficaces* (formerly PC 410).[25]

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[24] Officially five, but *de facto* four. See next footnote for details.

[25] While this program is listed in GM-1, Doc 1, p. 34, as being eligible for *Bonification CII*, SCGM is not projecting any MFR participants in PE 232 for 2012-2013 according to SCGM's answer to Régie IR 4.5 (GM-2, Doc 1, p. 13). Given that the projections for *Bonification CII* are a flat 40 *participants-bénéficiaires*

None of FEÉ's MFR-specific programs (*Marchés sociocommunataire et MFR*) is being transferred to the PGEÉ. PS 120, which provides energy efficient renovation to social housing and coops is also cancelled. We note that PS 120, though imperfect, was assisting over 200 MFR units per year. Presumably a similar program can be delivered to social housing and coops via PE 233. As will be discussed in Section 6.2.1, we are alarmed that the MFR participation targets are much lower in PE 233 than in PS 120 (and overall in all four newly integrated FEÉ programs that are eligible for *bonification*).

In response to an OC IR, SCGM has not been able to list what measures would be included PE 233 (Energy efficient renovations), delivered to MFR units, but has indicated that "major renovations" are not on the menu.

The exact financing mechanism for both the Residential and CII *Bonification* programs remains ambiguous, based on the Company's evidence and related IR responses. Our understanding is that the direction set out in the Incentive Mechanism proposal is that owners of residential or commercial buildings could receive assistance covering 100% of the incremental cost of high-efficiency equipment for MFR units. In a series of IRs, OC asked SCGM to clarify the *bonification* financing mechanism for both the Residential and CII programs.

We first sought to clarify what was meant by "*la bonification additionnelle offerte représentera 100% de l'aide financière de ces programmes*" in the context of the Residential *bonification* program. For the Residential *bonification* program (available for PE 124 and PE 125), it would appear that the additional aid would double the aid available in the regular programs in the case where 100% of renters in a building are MFR. In the case of a lower proportion of MFR inhabitants in a building, the *bonification* available would be weighted according the MFR ratio in the building.[26]

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per year from 2013-2015 (GM-1, Doc 2, Tables I.1-I.3), it is unlikely that any MFR participation in PE 232 is projected over the next three years. So de facto, the *bonification* is offered on four former FEE programs: two in the Residential market and two in the Commercial market.

[26] GM-2, Doc 8, SCGM's Answer to OC IR 4.6.3, pp. 8-9.

However, SCGM also mentions that the Residential *Bonification* program is related to the incremental cost of measures.[27]

In practical terms, it is not clear if the Residential *Bonification* is to be calculated by matching the financial assistance in the regular programs at the pro-rata of the number of MFR units in the building (in effect, doubling the existing assistance in the regular programs for MFR units), or if the bonification is meant to cover 100% of the incremental cost of the measures.

There is also ambiguity regarding the CII *Bonification* program. In answer to an OC IR,[28] SCGM has indicated that the calculation of financial assistance for the CII *Bonification* program is the same as the calculation for the Residential *Bonification* program.[29] In this IR answer, SCGM gave an example of how the Residential *Bonification* for PE 124 is calculated by matching the financial assistance in the regular program at the pro-rata of the number of MFR units in the building. However, SCGM's answer to OC IR 4.6.7[30] indicates that the financial assistance for the CII *Bonification* program is at least double the assistance available in the regular programs.[31] SCGM has not explained if or how these calculations relate to the goal of covering 100% of the incremental costs for efficiency measures.

Another area of uncertainty is how the *Bonification* programs might interact with the CASS (*Compte d'aide au soutien social*), as set out in the proposed Incentive Mechanism.[32] As defined in the mechanism, the CASS amount would range from a minimum of $250,000 to a maximum $500,000. The fund would provide occasional help for low-income consumers with payment difficulties. It might also bridge the gap

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[27] GM-2, Doc 8, SCGM's Answer to OC IR 4.4.3, p. 7.
[28] SCGM Answer to OC IR 4.5.1
[29] GM-2, Doc 8, SCGM's Answer to OC IR 4.4.1, pp. 6-7.
[30] GM-2, Doc 8, SCGM's Answer to OC IR 4.6.7, p. 10
[31] GM-1, Doc. 1, p. 34, line 22 –p. 35, line 5 sets out more specifically how the CII *Bonification* would work. It would appear that for the MFR units assisted that the financial assistance available would double or more than double the assistance available in the regular PE 233 and PE 234 programs.
[32] Mécanisme incitatif proposé par Gaz Métro à la phase 2 du PEN – R-3693-2009, B-48, GM-1, Doc 2, article 3.3.10, pp. 26-27.

between the total costs of acquisition and installation of energy efficient equipment and the total subsidies available. SCGM's answer to RNCREQ's IR 4A and 4B[33] confirms that the CASS could be used to further supplement the Residential *Bonification* programs, as well as other PGEÉ programs. At this point, however, the Régie has not approved the proposed Incentive Mechanism. It is unclear how much CASS assistance would be available for MFRs in the context of the PGEÉ, nor is it clear how the CASS assistance would supplement the *bonification* programs.

The total additional MFR spending to be integrated into the PGEÉ (i.e. the projected cost of the *bonification* programs as well at total subsidies for the programs eligible for *bonification*) is $682,261 in 2012-2013 or 16.7% of the total spending of FEÉ programs to be integrated in the PGEÉ.[34] With the integration of the *bonification* programs and the FEÉ programs eligible for bonification, total 2012-2013 spending on MFR in the PGEÉ should increase to $747,821 (from the current 2012-2013 PGEÉ MFR spending budget of $65,560) or **4.6%** of the total newly integrated PGEÉ budget for 2012-2013 (which amounts to $16.3M and includes total spending of FEÉ programs to be integrated in the PGEÉ).[35] This calculation is based on the projections from the present case and the PGEÉ budget as set out in R-3752-2011.

Annual MFR participation for the FEÉ programs to be integrated into the PGEÉ is estimated at 50 *participants-bénéficiaires*[36] per year (i.e. 10 in the Residential programs and 40 in the CII programs). With the integration of the *bonification* programs and the FEÉ programs eligible for *bonification*, total spending on MFR participation in the PGEÉ (in terms of MFR units) for 2012-2013 and 2013-2014 is projected to be **65 per year**

[33] GM-2, Doc. 4, pp. 3 and 4.
[34] GM-2, Doc 1, p. 13, Tableau I.1, Answer to Régie IR 4.5.
[35] R-3752-2011, GM-9, Doc 2, p. 7.
[36] Our understanding is that *participants-bénéficiaires* are equivalent to the total number of MFR units participating in the program, whereas as program participants are the number of building owners or MFR homeowners, who receive the financial assistance. Thus the number of participants is always lower than the number of *participants-bénéficiaires*.

(i.e., 50 from the *bonification* programs and 15 from the existing PGEÉ MFR programs).[37]

If there are no other changes in the existing PGEÉ program offerings after the integration of the FEÉ programs and the *bonification* programs, total MFR spending in the PGEÉ will continue to be approximately **4.6%** per year for both 2012-2013 and 2013-2014.[38]

We are aware (and hopeful) that the new MFR approach may well change elements of the existing PGEÉ budget; but we present the integrated PGEÉ MFR budget and participation numbers to guide the Régie in its deliberations and to highlight that, despite the new approach, MFR spending and participation as part of the overall PGEÉ remains inadequate.

Finally, we note that SCGM has broadened its definition of MFR income eligibility using the definition from the proposed Incentive Mechanism. To qualify as an MFR, before-tax income must be lower than Statistics Canada's low-income threshold plus 15%. In energy efficiency circles, this eligibility criterion is known as LICO (lower-income cut-off) + 15%.

6. OC'S COMMENTS ON GAZ MÉTRO'S PROPOSAL

6.1. Strengths of Gaz Métro's Proposal

[37] GM-1, Doc 2, pp. 1-2, Tables I.1-I.3.
[38] We do not have detailed budget projections for MFR spending for 2013-2014 or 2014-2015 for the *bonification* programs and the FEE programs that are eligible for *bonification*. However, given that the number of projected *participants-bénéficiaires* remains at a flat 50 per year, we can assume that the MFR budget is fairly similar over the three-year period (GM-1, Doc 2, pp. 1-2, Tables I.1-I.3). Moreover, total MFR spending in the PGEÉ as projected in the last rate case was a flat $65,560 annually for 2012-2014 with a flat participation rate of 15 MFRs per year (R-3552-2012, GM-9, Doc 2, pp. 7-9, Tables VI.1-VI.3).

While we have many comments on areas for improvement and concerns regarding the new approach to MFR energy efficiency, it is important to recognize that SCGM has made a real and positive effort in this proposal to consider how to reach more MFR natural gas users.

This new approach opens up the programs to MFR tenants in private buildings, and particularly to bulk-metered tenants (i.e. non-client users), Overall, this new direction has the potential to reach far greater numbers of MFR clients than the existing program offerings in either the PGEÉ or the FEÉ. Most MFR gas users are tenants and the vast majority of these users live in bulk-metered buildings (approximately 80% of all SCGM MFR users according to SCGM's 2008 MFR study). As such, this new approach presents an opportunity to target clusters of MFR clients where they actually live, and to design and deliver LIEE programs to the majority of MFR users.

We especially applaud the new approach for attempting to address the split incentive problem by offering the programs directly to the landlords and by considering tenant protection against rent increases.

As mentioned above, we also strongly support broadening the strict income eligibility definition beyond the Statistics Canada LICO. This is considered a best practice in LIEE in order to increase MFR participation.

Finally, we also appreciate that the new approach attempts to follow the direction agreed-upon by intervenors and SCGM in the 2011 PEN (as acknowledged by the Régie), as well as the guidelines that were further developed in the proposed Incentive Mechanism.[39]

6.2. Areas for Improvement and Concerns

Despite the positive direction of SCGM's new approach to MFR EE and the strengths detailed above, we are highly concerned that the program appears not to be well

[39] See footnotes 10 and 13.

considered or fully developed. This is indicated in SCGM's responses to the IRs of OC and other intervenors. These IRs requested details relating to the identification and qualification of prospective participants, marketing and communications plans for the programs, consultations with landlords, knowledge of best practices in other jurisdictions, etc. At this point, it is not efficient for OC to do detailed review of a still-embryonic program that will likely interact with the MFR offerings in the existing PGEÉ. We will therefore keep our comments at a high-level and flag a number of areas of concern including:

- low participation targets
- low funding targets
- high overhead
- poorly developed implementation plan for the new approach
- incomplete reporting
- continued absence of broad, comprehensive targeted MFR EE programs.

6.2.1. Low Participation Targets

Projected participation in the new *bonification* programs is very low with only **50 MFR beneficiaries assisted per year**. This low participation is notable given that the number of MFRs eligible for these programs has now increased considerably to a pool of approximately 134,079 users (27,354 direct MFR clients and 106,725 non-client users)[40] due to the inclusion of non-client users in private buildings. Moreover, over the three year plan, the projected annual participation remains at 50 beneficiaries per year.

[40] R-3662-2008, GM-10, Doc 1, Table, p. 18

At SCGM's projected annual participation rate for the *bonification* programs, it will take almost 2,700 years to reach all MFR users with these programs.

As indicated in Section 5, the PGEÉ with the integration of the *bonification* programs and FEÉ programs eligible for *bonification*, total spending on MFR participation in the PGEÉ (in terms of MFR units) for 2012-2013 and 2013-2014 is projected to be **65 per year** (i.e., 50 from the *bonification* programs and 15 from the existing PGEÉ MFR programs).[41] So at this rate, it will take just over 2,000 years to reach all MFR users with all the programs offered in the newly integrated PGEÉ.

We are also alarmed that MFR participation levels are going in the wrong direction with the dissolution of the FEÉ program. While the FEÉ MFR programs served a very limited subset of the MFR market (focussing on those living in social housing and coops), they were able to deliver programs to 233 MFR households in 2010-2011, of which the vast majority (227) were assisted in the PS 120 program, which provides energy efficient renovation to social housing and coops. PS 120 was able to take advantage of the clustering of MFRs in social housing and coops. We suggest that SCGM can learn from this program (PS 120) to leverage clustering of MFRs in private buildings, while continuing to deliver energy efficient renovation to social housing and coops in PE 233 (*Rénovation écoénergétique des bâtiments*). And especially now that the pool of eligible participants has gotten bigger, there is no reason that the MFR targets should be so low.[42]

The undersizing of SCGM's participant targets can be illustrated with a simple example. If SCGM were to make a concerted effort to identify just one or two large buildings with a high concentration of MFRs, PE 233 alone has the potential to deliver programs to several hundred MFR households. Moreover, if PE 233 attracts social housing and coop clients at the same rate as the FEÉ's PS 120, it should be able to deliver renovation

[41] GM-1, Doc 2, pp. 1-2, Tables I.1-I.3.
[42] We note that total MFR beneficiaries in the CII *Bonification* amount to 40, with 8 participants in the Renovation program and 2 participants in the solar program.

programs to several hundred MFR units in this sector as well. In this positive eventuality, the current participant targets (and funding) would be severely undersized. This points to the need for higher participant and funding targets and more flexibility to allow for greater participation.

We note that the financial incentives for PE 233 appear to be considerably less generous than for PS 120 (even with the MFR bonification).[43] For social housing and coops, in particular, we recommend that the incentives in PE 233 be set at a level that will continue to yield similar or better participation results from this sector as PS 120. In general, consideration should be given to ensure that the financial incentives in the programs eligible for *bonification* are also set at appropriate levels to ensure reasonable private landlord and MFR homeowner participation. According to SCGM's 2008 MFR study, landlords appear to be highly price sensitive to incentive levels.[44] Given the lack of consultation with landlords when the new approach was designed, we are concerned that the incentives may not be adequate to attract reasonable participation.

As mentioned above, we strongly support broadening the strict income eligibility definition beyond the Statistics Canada LICO. This is considered a best practice in LIEE in order to increase MFR participation. Broadening MFR income eligibility to LICO + 15% is a step in the right direction. However, many jurisdictions, including Ontario (LICO + 35%)[45], Manitoba (LICO + 25%),[46] have increased the LICO thresholds by 25% or more.[47]

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[43] GM-1, Doc 1, pp. 10, 12 and 35.
[44] R-3662-2008, GM-10, Doc 1, p. 25, lines 3-8.
[45] Demand Side Management Guidelines for Natural Gas Utilities, EB-2008-0346, June 30, 2011, p. 8. http://www.ontarioenergyboard.ca/OEB/_Documents/Regulatory/DSM_Guidelines_for_Natural_Gas_Utilities.pdf
[46] Manitoba Hydro Lower Income Energy Efficiency Program (LIEEP) Eligibility Application, p. 2. Note MH uses the same criteria for its electricity programs as its gas programs. http://www.hydro.mb.ca/your_home/lieep/eligibility_application.pdf
[47] In testimony before the OEB, Roger Colton, a recognized LIEE expert, provided a good justification for broadening the LICO criteria (when he recommended six years ago that eligibility for gas programs in Ontario should be set at LICO + 25%):

Given that MFR participation has been a significant challenge for SCGM in its PGEÉ MFR programs, we recommend that the Régie monitor participation rates under the new approach with the LICO + 15% eligibility in 2012-2013. If participation continues to be a challenge, the income eligibility should be further broadened by 2013-2014 to LICO + 25% or LICO + 35% to match Quebec's neighbours in Ontario and Manitoba.

6.2.2. Funding Targets Considerably Lower than Other Jurisdictions

As we have calculated above, if there are no changes in the existing PGEÉ program offerings, total MFR spending in the PGEÉ after the integration of the FEÉ programs and the *bonification* programs will continue to be approximately <u>**4.6%**</u> per year for 2012-2013 and 2013-2014. This is considerably better than **0.61%**, the proportion of MFR spending in the total 2010-2011 PGEÉ budget. Likewise, 4.6% is considerably better than **0.58%,** the share of the projected MFR spending for 2012-2014 in the 2012-2014 PGEÉ budget (prior to the integration of the FEÉ and *bonification* programs).

However in comparison with other jurisdictions (notably Ontario), a target of 4.6% (as a proportion of MFR spending in an EE program budget) is quite low. As we cited above in Section 4.1, the OEB has ruled that the annual low-income DSM budget shall be no

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Using the LICO as the demarcation of eligibility for low-income efficiency programs is recommended because a household living with income below current LICO will most likely face the market and physical barriers identified above that make energy programs inaccessible to the household. Moreover, a household living with income below current LICO will most likely serve the additional business-related purposes involving the reduction of costs associated with nonpayment.
Wherever an income eligibility line is drawn, however, there will be some households that have incomes marginally in excess of that line. It would be appropriate (and LIEN endorses) the setaside of a pre-determined proportion of low-income energy efficiency funding for households that have income marginally in excess of LICO.

(Colton, Roger, "Low-Income Energy Efficiency in Ontario: The Design of a Natural Gas DSM Program", June 1, 2006, p. 12, filed at the OEB under EB-2006-0021, June 2006; file as an Appendix to OC's Analyst Report in R-3596-2011, C-3-12-OC-Preuve-Annexe1. http://www.regie-energie.qc.ca/audiences/3596-06_2/Preuve3596_2/C-3-12_OC_Preuve-Annexe1_3596-2_9juin06.pdf) less than 15% of the natural gas utilities' total DSM budgets.[48] Moreover, in his 2006 Evidence before the OEB regarding the design of natural gas LIEE programs, Roger Colton provides a clear explanation as to why it is important to set aside adequate funding targets for MFR programs in order to build future capacity to deliver these programs. Dr. Colton also points out that jurisdictions in the US spend roughly 10-15% of their energy-efficiency budgets on low-income programs (emphasis added):

> As can be seen, one component of a utility low-income energy efficiency program is a periodic inventory of the institutional capacity to deliver low-income energy efficiency measures. The inventory should cover the planning period of the utility. If the utility files three-year energy efficiency plans with regulators, in other words, its inventory should include the existing and projected capacity to deliver low-income services over that three-year period. The budget for low-income energy efficiency should be sufficient to finance full utilization of the inventoried capacity. A periodic inventory is necessary because institutional capacity frequently mirrors the available resources. Institutional capacity to deliver cost-effective energy efficiency measures may, at the beginning of the program, be low because the resources have not previously been available to expand that capacity. If, however, a designated amount of resources is committed over a designated planning period, the capacity can be increased to allow full utilization of those resources.
>
> In Ontario, it is particularly important not to allow prior insufficient funding to artificially limit the future ability to build capacity to deliver cost-effective low-income energy efficiency. Information provided by Enbridge Gas Distribution Inc (May 30, 2006) reports that in 2005 it spent 2.7% of its entire DSM budget on supporting low-income customers [footnote 6 in original omitted because of length and relevance] EGD's low-income expenditures represent 0.014% of its total revenues. In contrast, U.S. jurisdictions spend roughly 10 - 15% of their energy efficiency budgets on low-income programs. In Pennsylvania, natural gas utilities are required to spend 0.2% of their revenue on low-income efficiency programs. As utilities such as EGD increase their budgets, they will also increase the capacity to deliver low-income efficiency programs. The test of full accessibility should reflect that increasing capacity over time.[49]

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[48] Demand Side Management Guidelines for Natural Gas Utilities, EB-2008-0346, June 30, 2011, p.26. http://www.ontarioenergyboard.ca/OEB/_Documents/Regulatory/DSM_Guidelines_for_Natural_Gas_Utilities.pdf

[49] Colton, op. cit., footnote 47, p. 18.

We note that in Ontario, Enbridge Gas Distribution (EGD) was spending only 2.7% of the entire DSM budget on low-income programs six years ago. But as of June 2011, the OEB has directed EGD to spend 15% of this budget on LIEE.

Similarly, we also believe that the funding set aside by SCGM to support MFR users is too low and limits the ability to build capacity to deliver MFR programs over the next three years. As emphasized above, if SCGM intends to be effective in delivering low-income programs in bigger buildings on a broader scale, the current participant targets and funding are severely undersized. This points to the need for higher participant and funding targets and more flexibility to allow for greater participation.

SCGM has an unusually high proportion of MFR gas users: an estimated 38.7% of all gas users in residential and multi-unit buildings are MFR. This is a key rationale for higher funding targets. Therefore, if SCGM intends to achieve significant energy savings via its PGEÉ programs, it needs to address MFR users in a more meaningful way (i.e. with considerably higher participation and funding targets).

Jurisdictions with high levels of LIEE spending (e.g., Ontario, Massachusetts and California) are now focusing on LIEE as an important resource to achieve sizable overall energy savings, in addition to the traditional focus on LIEE as a means to improve the living conditions of lower-income consumers. Higher-cost programs that include comprehensive measures in multi-unit buildings or "whole neighbourhood" approaches lead to significant energy savings.[50]

SCGM should use the new approach to MFR EE in order to move towards such best practices, which would imply wider MFR participation, comprehensive programs targeted towards MFRs, and substantially higher energy savings. In order to build

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[50] A recent report by Ian Goodman, another expert on energy efficiency, supports higher spending levels on LIEE as a means of saving energy, in addition to improving the lives of lower-income consumers.Goodman, Ian, "Approaches and Examples for Residential Energy Efficiency Programs for OC Focus Groups," Prepared for Option consommateurs, March 28, 2012, p. 5 and p. 18.

capacity to deliver such programs, however, both funding and participation targets will have increase significantly.

6.2.3. High Overhead

In its application, SCGM projects that the Residential *Bonification* program will provide $10,590 of subsidies in 2012-2013 with $20,000 in marketing (*commercialisation*) costs. In the subsequent years of the program, the marketing costs drop to $15,000 per year, whereas the subsidies remain at $10,590 per year.[51] [52] We are concerned that the level of marketing (*commercialisation*) costs are so large relative to program subsidies for the Residential *Bonification* program for 2012-2013, 2013-2014 and 2014-2015. Moreover, given the size of the Residential *Bonification* program and the fact that there are only 10 MFR *participants-bénéficiaires* (and 8 participants in total), these marketing costs seem unduly high. When asked to justify these high costs relative to the program subsidies, SCGM simply said that marketing efforts would be more aggressive in the first year of the program than in subsequent years.[53]

We note that the marketing costs for the CII *Bonification* program are $30,000 in 2012-2013, but drop to $25,000 for 2013-2014 and 2014-2015. However the subsidy levels are significantly higher ($369,280 for the CII *Bonification* program and $247,312 for the portions of the CII programs, which assist MFR users). Moreover, while the CII *Bonification* remain woefully undersized, they serve 40 MFR beneficiaries versus 10 MFR beneficiaries in the Residential *Bonification* program.

Our concern about high overhead does not relate to the absolute amount of marketing costs in the Residential *Bonification* (i.e. $20,000). Rather we wish to make the more general point that if the MFR program funding and participation targets were more

[51] GM-1, Doc. 2, pp. 8-11, Tables VI.1-VI.4
[52] As explained in SCGM's Answer to Régie IR 4.5 (GM-2, Doc 1, p. 13), the portions of the Residential programs that assist MFR users provide subsidies totaling $5,079. The sum of the Residential *Bonfication* program subsidies and these Residential program subsidies is $15,669 and thus less than the marketing budget for 2012-2013, and slightly over the marketing budget for the two subsequent years.
[53] GM-2, Doc 8, SCGM Answer to OC IR 7.5, p. 17

ambitious, then this overhead would be spread over larger subsidies, energy savings and MFR participants.

6.2.4. Poorly Developed Implementation Plan

Answers to IRs from OC and ROEÉ indicate that SCGM has not yet adequately developed its implementation plan for the new approach to MFR EE (i.e. the *bonification* programs and the related Residential and CII programs eligible for *bonification*). As noted above, these IRs asked SCGM to specify details related to the identification and qualification of prospective participants, marketing and communications plans for the programs, the involvement of the SCGM sales force, consultations with landlords, knowledge of best practices in other jurisdictions, etc. It is also unclear what precise measures would be involved in the CII Renovation program, PE 233, which is largest of the programs eligible for *bonification*.

Our area of greatest concern is the identification of MFR participants since SCGM has repeatedly indicated that identification of these users is the main barrier to delivering MFR EE programs. Neither SCGM's application nor IR answers provide a clear idea how participants will be identified. Our understanding from SCGM's application is that an external firm will be hired to qualify MFR participants.[54] It is uncertain whether this external firm will play a role in actually identifying the clients.[55] We do not know whether this external firm will be a community organization or not. SCGM tells us that the external firm has not been selected and that an RFP will be sent out to select one or several external firms.[56] SCGM has not developed a process by which the external firm will qualify MFR users.[57]

OC is also concerned that SCGM has not considered a plan to address the high proportion of immigrants among potential MFR participants. Additional efforts should be

[54] GM-1, Doc 1, p. 30, lines 10-11.
[55] GM-2, Doc 8, SCGM's Answer to OC IR 7.4.3, p.16.
[56] GM-2, Doc 8, SCGM's Answer to OC IR 7.4.1, p.16.
[57] GM-2, Doc 8, SCGM's Answer to OC IR 7.4.4, p.17.

made to reach this large sub-group of MFR users. Examples of such efforts include translation of communications materials into the most common immigrant languages (e.g. Spanish and English, which is often understood broadly); increased sensitivity on the part of MFR identifiers/qualifiers given that immigrants are often less trusting of authorities and wary to provide information; reliance on community-based organizations who assist immigrants to help in publicizing the programs.[58]

Overall, SCGM does not appear to have a fully developed plan for how the marketing and communications will target either MFR participants or landlords with MFR tenants. OC asked a series of questions on what SCGM is planning in order to attract sufficient landlord participation and the Distributor provided few specifics in response. The most concrete details that SCGM was able to divulge in terms of its plans to identify MFR participants were that (a) SCGM is currently in discussion with the FECHIMM (a Montreal cooperative organization); and (b) Gaz Métro will use data from Statistics Canada to determine income indices by Forward Sortation Areas (FSA) (i.e. *régions de tri d'acheminement (RTA)*) in order to promote programs in lower-income neighbourhoods.[59]

Given that the FEÉ has experience serving the cooperative market, we expect SCGM to build on the groundwork that was laid in the FEÉ's Renovation program for social housing and coops (PS 120). A more interesting challenge (and opportunity) of the new approach is to determine how the majority of MFRs living in private buildings will be identified and encouraged to participate in these programs. Beyond using Statistics Canada data to locate low-income neighbourhoods, SCGM's marketing plan does not appear to be well-considered. Gaz Métro failed to answer our question to explain in detail what the role of its sales force will be in the marketing of the program.[60] Unless

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[58] Jurisdictions with large-scale LIEE programs frequently have a high proportion of immigrants (e.g. Ontario and California). These jurisdictions use community-based organizations to effectively serve this MFR sub-group. In fact, partnership with community-based organizations in LIEE program promotion and delivery is considered a best practice in LIEE.

[59] GM-2, Doc 8, SCGM Answer to OC IR 4.6.4, p. 9 and SCGM Answer to OC IR 7.2, p. 15.

[60] GM-2, Doc 8, SCGM Answer to OC IR 7.2, p. 15.

there are incentives to create a culture of energy efficiency among salespeople, it is unlikely that these landlord-oriented programs can be successful.

Moreover, SCGM has not undertaken any consultations with landlords in order to gauge their interest in the program or to ascertain if the financial assistance levels are sufficiently high to attract broad landlord participation.[61] As discussed in Section 6.2.1, given this lack of consultation, we are concerned that the incentives may not be adequate to attract reasonable landlord participation.

OC also asked SCGM to what extent they reviewed MFR programs in other jurisdictions to determine best practices; and to what extent did SCGM consider experience from other jurisdictions in terms of identifying and attracting MFR participants and landlords to such programs, as well as establishing adequate financial aid levels in order to provide the incentive for higher levels of participation. SCGM referred us to an answer to a similar question by ROEÉ. The Company merely stated that the approach has not been compared to approaches by other distributors. The approach was chosen because it fulfills the objectives set out in the proposed Incentive Mechanism.[62] This is further evidence that the marketing approach has not been well-considered and that best practices in the delivery of LIEE programs in other jurisdictions do not appear to have been considered.

Finally, we are concerned that SCGM was unable to identify what precise measures would be involved in the CII Renovation program, PE 233, which is largest of the programs eligible for *bonification*, or in PE 232, Financial assistance for new efficient buildings.[63] In response to another question, SCGM indicates that “major renovations” are not part of the FEÉ programs (to be integrated in the PGEÉ).[64]

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[61] GM-2, Doc 8, SCGM Answer to OC IR 4.6.1, p. 8.
[62] GM-2, Doc 5, SCGM Answer to ROEÉ IR 3.1, pp. 4-5
[63] GM-2, Doc 8, SCGM Answer to OC IR 8.5, p. 21.
[64] GM-2, Doc 8, SCGM Answer to OC IR 4.6.1, p. 8.

However, according to the FEÉ website, the Energy Efficient Renovation program (formerly known as PC 420 and now integrated in the PGEÉ as PE 233) includes such eligible measures as: replacing windows; compartmentalizing the building to make it airtight; insulating the building.[65] We firmly believe that Renovation programs should cover such deep measures. This will be further discussed in Section 6.2.6 and in Section 7.

We strongly encourage SCGM to develop a more complete implementation plan for the new approach to MFR EE as soon as possible (and prior to the 2012-2013 rate year) to ensure the success of the approach. This implementation plan should include a complete marketing and communications plan, as well as clear identification of the CII program measures.

6.2.5. Incomplete Reporting

Both OC and the Régie asked IRs related to more precise reporting in order to follow MFR participation in each program. In Answer to Régie IR 4.5, SCGM provided more precise information on MFR participation for 2012-2013 only.[66] OC strongly encourages SCGM to more broadly adopt this style of complete reporting when accounting for MFR-related activities. Furthermore, when reporting on results of the MFR approach, it would be useful and informative (in order to improve program offerings) to include additional information on participants and beneficiaries (e.g., Residential non-MFR landlords, Residential MFR tenants (individual and bulk-metered), Residential MFR homeowners and landlords, CII landlords, CII tenants (individual and bulk-metered)).

6.2.6. Absence of Broad, Comprehensive, Targeted MFR EE programs

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[65] FEÉ webpage on Energy efficient renovations, June 12, 2012, http://www.fee.qc.ca/en/business/energy-efficient-renovations.php
[66] GM-2, Doc 1, p. 13.

Broad, comprehensive targeted MFR programs are considered best practices in jurisdictions with high levels of EE, and specifically LIEE spending. LIEE experts[67] agree on the importance of targeted lower-income energy efficiency programs. According to Roger Colton:

> Making utility-funded energy efficiency programs accessible to low-income households does not "just happen." Indeed, without specific programs directed toward low-income customers, these programs tend to exclude low-income customers from participation, even though they pay for them through the rates. Low-income customers are systematically excluded because of market barriers that are unique to low-income households.[68]

As defined in Section 3, comprehensive programs include two main groups of measures: (a) building envelope measures (including both deep and shallow weatherization measures); and (b) basic or extensive in-unit measures. Examples of basic in-unit measures include those undertaken as part of the Éconologis home visit program, such as hot water tank insulation, whereas more extensive in-unit measures would involve the replacement of appliances and equipment. Typically, comprehensive programs take a whole-unit or whole-building approach and lower transactional burden for the MFR household.

Again, LIEE experts agree that broad, comprehensive programs are considered best practices in LIEE.[69]

While comprehensive LIEE programs (versus piecemeal programs) are generally best practices for EE, these programs are especially important for gas EE, and especially for residential and multifamily. This is even more true in SCGM's service territory. Natural gas usage in residential/multifamily in SCGM's service territory seems to be focused on a small number of end uses. Therefore EE may entail a relatively small number of

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[67] Colton, op. cit.; Goodman, op. cit.; Kushler, Martin et al, "Meeting Essential Needs: The Results of a National Search for Exemplary Utility-Funded Low-Income Energy Efficiency Programs," September 2005.
[68] Colton, op. cit., p. 3
[69] Colton, pp. 15-16; Kushler et al, p. 5; Goodman, p.18.

measures. Especially given the high overhead cost for site visits (both in terms of contractor cost and also transactional burden for participants and landlords), it is especially inefficient (and perhaps not cost-effective) to address a limited number of end-uses and measures via multiple programs and potentially multiple site visits. A key element of the "whole building" or "whole neighbourhood" comprehensive approaches is that contractors and technicians go in and do everything (in a given unit, building, and whole neighborhood) in a short time window. To the extent that implementation requires specialists and thus multiple contractors (such as shell measures), the provision is to be closely coordinated, so that even if it cannot happen at exactly the same time, it happens in close succession and logical order.[70] Given the clustering of MFR users in certain buildings and the high number of MFR renters in Montreal, a logical marketing step in a comprehensive approach would be to target landlords who own multiple buildings clustered in low-income neighbourhoods.

We are concerned that SCGM is dismissive of targeted MFR programs for accounting reasons[71], and has not designed its programs based on LIEE best practices or a review of cost-effective LIEE programs among other distributors.[72]

6.2.7. Overarching Concerns Related to Areas of Improvement

In light of above, despite the significant potential of the new approach to MFR EE, if these areas of improvement are not addressed prior to program implementation, we have several major overarching concerns:

(i) SCGM will not be in a position to successfully implement the new approach to MFR EE (i.e. the *bonification* programs and the programs eligible for *bonification*) in 2012-2013;

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[70] See Goodman, pp. 15-16, 32-34 for further discussion on the advantages of the "whole neighbourhood approach" currently deployed in California.
[71] GM-2, Doc 5, SCGM Answer to ROEÉ IR 3.6, pp. 5-6.
[72] GM-2, Doc 5, SCGM Answer to ROEÉ IR 3.1, pp. 4-5.

(ii) If SCGM is unable to do (i) successfully, it will certainly not be ready to increase its MFR targets and funding in order to build capacity over the next three years to deliver bigger and better programs (that are broad, comprehensive and targeted).

Finally, OC's greatest concern is that in three years, SCGM will continue to have low participation in MFR programs, coupled with low energy savings despite much paperwork and significant regulatory consideration.

7. RECOMMENDATIONS

7.1. General Recommendations

Following from our discussion above of Strengths and Areas for Improvement and Concerns, the following is a summary of our recommendations:

1. <u>Higher participation targets</u>: Increase participation targets in the Residential and CII *Bonification* programs in order to leverage the potential of the new approach. The FEÉ's PS 120 program (Energy efficient renovation to social housing and coops) assisted 227 MFRs in 2010-2011. At a minimum, annual MFR participation levels for PE 233 in 2012-2013 should be at about the same level given that PE 233 includes Energy efficient renovation for all CII clients (including private buildings, coops and social housing). Anything less than the current level of assistance to MFRs would be going backwards and will result in the continuation of an inefficient and ineffective status quo for the PGEÉ: tiny programs with high overhead that assist a handful of MFRs and achieve negligible energy savings. We do not want the integration of FEÉ programs into the PGEÉ to result in even lower levels of MFR participation than the current situation (i.e. separate FEÉ and PGEÉ). A reduction in overall MFR participation levels is particularly unacceptable given that the new approach allows SCGM to access a much bigger pool of MFR clients (i.e. the large number of non-client

users in private buildings). We also strongly encourage SCGM to leverage the potential of this bigger pool of MFR users and to encourage participation particularly among bulk-metered tenants clustered in bigger private buildings or in multiple buildings owned by the same landlord in low-income neighbourhoods (in addition to the more easily identifiable/qualified MFR users in social housing and coops).

As such, OC recommends the following participation targets in terms of MFR beneficiaries for the combined *bonification* programs:

2012-2013: 230 *participants-bénéficiaires*

2013-2014: 350 *participants-bénéficiaires*

2014-2015: 500 *participants-bénéficiaires*

As emphasized above, given that MFR participation has been a significant challenge for SCGM in its PGEÉ MFR programs, we recommend that the Régie monitor participation rates under the new approach with the LICO + 15% eligibility in 2012-2013. If participation continues to be a challenge, the income eligibility should be further broadened by 2013-2014 to LICO + 25% or LICO + 35% to match Quebec's neighbours in Ontario and Manitoba. An additional benefit of further broadening of income eligibility is that it enhances SCGM's ability to take advantage of MFR clustering.[73]

2. <u>Higher funding targets</u>: Like the participation targets, the funding targets are too small to enable widespread MFR participation and significant energy savings. As estimated in Section 5, total MFR spending in the PGEÉ (with the newly integrated FEÉ and bonification programs) for 2012-2013 and 2013-2014 is

[73] In given MFR clusters, the income of some users may be slightly above LICO (or LICO + 15%). The broadening of the income eligibility will allow more users in a given location to participate in MFR programs. This will help to spread marketing costs and other costs over larger subsidies and energy savings, and thus help to improve the cost effectiveness of the programs.

about 4.6% of the total PGEÉ budget. We recommend that at a minimum this target be increased over the 3-year program such that by 2014-2015, MFR spending is at **10%** of the total PGEÉ budget. As SCGM establishes broad, comprehensive, targeted MFR programs in 2015-2016 and beyond, MFR spending should be increased to **15%** of the total PGEÉ budget (so as to be on par with Ontario and other jurisdictions where LIEE is used to achieve significant energy savings). As funding and participation targets increase, the high overhead we discussed in Section 6.2.3, will be spread over larger subsidies, energy savings and MFR participants and thus be better leveraged.

3. <u>Better implementation plan required</u>: As discussed in detail in Section 6.2.4, we encourage SCGM to better develop and report on its implementation plan for the new approach to MFR EE (i.e. the *bonification* programs and the related Residential and CII programs eligible for bonification). In particular, SCGM should be able to specify details related to the identification and qualification of prospective participants, marketing and communications plans for the programs, the involvement of the SCGM sales force in selling to programs to landlords and MFR participants, approaches for targeting landlords, and details regarding CII program measures. SCGM should put together a more complete implementation plan for the new approach to MFR EE (including a complete marketing plan as well as clear identification of the CII program measures) as soon as possible (and prior to the 2012-2013 rate year) to ensure the success of the program.

4. <u>Improved regulatory reporting and consideration of LIEE best practices</u>: In order to build bigger, better programs to attract widespread MFR participation, SCGM will have to learn by doing. This learning will be facilitated by better reporting with specific details on MFR participation (and the types of MFR users involved in the program as outlined in Section 6.2.5), better description of its implementation program for these programs in regulatory filings, and consideration of LIEE best practices in other jurisdictions.

5. Work towards broad comprehensive targeted MFR EE programs: As discussed in Section 6.2.6, LIEE experts agree that broad comprehensive targeted MFR programs are considered best practices in jurisdictions with high levels of EE and specifically LIEE spending. The *bonification* programs proposed are neither broad, nor comprehensive. Moreover, the programs eligible for *bonification* do not target MFR users per se. But depending on how the new approach to MFR EE is implemented, there is great potential, to target a much larger pool of MFR users (i.e. non-client users in private buildings) and to leverage the clustering of these users. In general, OC believes that SCGM should use the new approach to MFR over the next three years in order to build the capacity to subsequently implement broad comprehensive targeted MFR programs. The following section will outline this recommendation in more detail.

7.2. Specific Recommendation: Use the New Approach as a Capacity-Building Tool to Learn How to Deliver Broad Comprehensive Targeted MFR Programs

This continued poor performance of MFR programs in the PGEÉ and FEÉ is particularly unsatisfactory given the following:

- years of discussion on how to improve the low participation of MFR clients in the PGEÉ and lengthy regulatory consideration;
- testimony by OC on best practices in LIEE six years ago (which called for broad comprehensive and targeted MFR programs);
- direction in 2006 by the Régie to establish a targeted MFR EE program;
- an action plan set out by SCGM in 2007 to better address MFR clients;
- a study to better understand the MFR market in 2008.

Despite all this effort and deliberation, the existing MFR PGEÉ programs continue to be ineffective with negligible participation and the MFR market continues to be underserved.

Moreover, as discussed in the previous section, we are far from convinced that SCGM's implementation plan for the new approach to support MFR energy efficiency will leverage the potential of this approach in terms of encouraging broad MFR participation and achieving significant energy savings.

To avoid being in the same position three years from now (with very low participation coupled with low energy savings), we strongly recommend that SCGM use this new approach as a pilot project with a view to developing a broad comprehensive targeted LIEE program within three years (to be implemented in 2015-2016 and beyond). In this way, we can get the most benefit out of the *bonification* programs and move towards best practices in LIEE, broad MFR participation and significant energy savings.

As discussed in more detail in Section 6.2.6, the composition and clustering of MFR users in SCGM's service territory lends itself well to broad comprehensive programs. If SCGM wishes to save energy via its PGEÉ programs, it needs to address these users in a more meaningful way (i.e. with considerably higher participation and funding targets as per the general recommendations above) and leverage opportunities to address clusters of MFR users in bigger buildings or in multiple buildings owned by the same landlord. SCGM should also derive some lessons from the FEÉ experience with PS 120 in particular, regarding how to take advantage of MFR clustering.

Therefore, over the next three years, the objective of SCGM's new approach to MFR EE (i.e. *bonification* programs and the related Residential and CII programs eligible for *bonification*) should be to get better information on the needs of MFR users and landlords, and to learn how to best implement MFR EE programs so SCGM will be in a position to deliver larger programs. SCGM should use the new approach to MFR EE to build the capacity to subsequently implement broad comprehensive targeted MFR programs in 2015-2016 and beyond.

In order to do this, we have identified specific higher participation and funding targets for the *bonification* programs over the next three years (in Section 7.1, items 1 and 2).

These targets are justified for all the reasons outlined above in Sections 6.2.1 and 6.2.2. Moreover that these higher targets have the following benefits:

- create the opportunity for SCGM to learn more about how to deliver successful programs to landlords and MFR users;
- help justify high marketing overhead costs by spreading them over more activities;
- inculcate a culture of MFR energy efficiency among SCGM employees (particularly the marketing and salespeople) and help SCGM prepare for the delivery of broader more comprehensive programs;
- provide more flexibility and not artificially limit the potential to do more LIEE if programs are successful in terms of MFR participation.

As discussed in Section 6.2.1, for social housing and coops, in particular, we recommend that the incentives in PE 233 be set at a level that will continue to yield similar or better participation results from this sector as PS 120. In general, consideration should be given to ensure that the financial incentives in the programs eligible for *bonification* are also set at appropriate levels to ensure reasonable private landlord and MFR homeowner participation.

We also recommend that over the next three years, SCGM should learn from the best practices regarding the delivery of successful LIEE in other jurisdictions.

Finally, we remind the Régie that SCGM has an unusually high proportion of MFR gas users: an estimated 38.7% of all gas users in residential and multi-unit buildings are MFR. Therefore, if SCGM intends to achieve significant energy savings, it should attempt to address MFR users more broadly with appropriate programs targeted to their needs.

Finally, as emphasized throughout this report, jurisdictions with high levels of LIEE spending are now focusing on LIEE as an important resource to achieve sizable overall energy savings, in addition to the traditional focus on LIEE as a means to improve the living conditions of lower-income consumers. Similar opportunities exist in SCGM's service territory and we strongly encourage SCGM to take advantage of the vast potential of its new approach to MFR EE.