The Industry - Regulators Dialogue on EE/DSM 2006-2007

A summary report

April 14, 2008

Prepared for the Organizing Agencies

By

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Foreword

Two years ago, we established the National Conservation Forum. The organizers were the Ontario Energy Board, the Alberta Energy and Utilities Board, the Canadian Gas Association and the Canadian Electricity Association.

At that time, we faced a unique situation with complex regulatory challenges. The economics of the energy sector was rapidly changing. Decades of economic growth had been fuelled by cheap electricity. But that situation had changed. Ontario's generating capacity was lower than it was a decade earlier. And over the next 20 years 80% of Ontario's generating capacity would reach the end of its useful life.

We discovered some other realities. First and foremost was that we were wasting a scarce resource. That was because we had never considered it scarce and priced it too low. When the average cost of production is significantly lower than the marginal cost of new generation, conservation becomes critical. It became increasingly clear that conservation was avoided generation and it was cheaper to save a megawatt than to build a megawatt. More importantly it could be done in a more timely fashion. There are no environmental concerns or land owner claims. Or at least there were fewer.

At that time, we also discovered climate change and green house gas emissions. This began to influence the type of new generation we should develop. It became increasingly clear that there was a strong bias towards renewable generation.

Most provinces were developing a serious interest in conservation particularly in the electricity sector. But, these initiatives had a cost. And for regulators there were questions as to how to judge the prudence of these costs. That is, what were the costs and what were the benefits? There were also concerns about regulatory delays as we tried to integrate traditional rate-making principles with this new initiative.

At this point, we decided to organize a series of four conferences on conservation and demand management. This was to be a dialogue between the utilities and the regulators without the formality of the hearing room. We agreed to jointly fund expert speakers and in a series of four conferences, develop a body of learning. The first conference was held in Toronto followed by conferences in Calgary and Montreal with a final conference in Toronto.

The benefits were substantial. There were first-class speakers with an open dialogue and debate. In each of the four meetings the major utilities across Canada participated on a substantial basis as did most of the regulators. The format also worked well. We started in the afternoon, followed by a dinner with a speaker in the evening and a roundtable the following morning.

Two years later much has changed. Conservation is now accepted as an imperative. Virtually all of the provinces have increased their conservation goals significantly driven not just by supply shortage concerns but the ever-growing concern with climate change and green house gas emissions. These issues two years ago were in some quarters regarded as academic. Now they are core issues for Governments and utilities not to mention Canada's energy regulators.

On behalf of the four founding agencies, I want to thank all of those that participated. Many were senior officials from energy utilities from across Canada that participated throughout the two-year process at each of the four meetings. And there was a substantial commitment from utility regulators. I particularly want to thank the Canadian Gas Association and the Canadian Electricity Association through their presidents, Mike Cleland and Hans Konow for their commitment to developing this new form of regulatory dialogue.

We have largely avoided the costs and misinformation that can result from the adversary process. Instead we benefited from a truly collaborative process between all stakeholders. It is a model that may be well suited for other issues.

We did not keep a formal record of any of the four proceedings. We did that for a reason. We wanted to foster free and candid comments in a small group setting. That we accomplished. Unfortunately that means that we have little by way of a record. To that end, we asked IndEco to produce this Report. Hopefully, it will assist others in studying these important issues.

Finally, I would like to thank my colleague, Bob Heggie of the Alberta Energy and Utilities Board, a great public servant who has driven much of this process to its successful conclusion.

Gordon Kaiser
Vice-Chairman
Ontario Energy Board

1 Introduction

In 2006, four agencies (referred to hereafter as the organizing agencies): the Canadian Gas Association (CGA), the Canadian Electricity Association (CEA), the Ontario Energy Board (OEB) and the Alberta Energy and Utilities Board (AEUB), jointly created the Industry-Regulators Dialogue on Energy Efficiency/Demand Side Management (EE//DSM). This Industry-Regulators Dialogue engaged natural gas and electric distribution utilities and industry regulators nationwide in an open discussion on energy efficiency and demand side management (EE/DSM) topics of mutual interest.

The Industry-Regulators Dialogue was a unique process. It was the first time in Canada that regulators, senior natural gas and electricity distribution company representatives from across Canada, and representatives from their business associations met informally in a collaborative setting to discuss regulatory issues. The Dialogue, in this case, focused on a long term perspective of EE/DSM issues facing these groups.

The organizing agencies organized four sessions on EE/DSM. Based on feedback from participants, it is clear that these sessions were successful. The Dialogue succeeded in educating both the participating regulators and industry representatives about EE/DSM in an effective forum for discussion.

Because the Dialogue was meant to be informal and there were no EE/DSM outcomes established at the outset for the Dialogue, the organizing agencies did not maintain a record of the discussions that took place for the first three sessions. However, after the success of the three sessions, the organizing agencies decided that it would be worthwhile to develop a forensic record of the past sessions and a record of the fourth session. The record would contain the lessons learned regarding the EE issues that were discussed as well as the process of the Dialogue that was developed. The record would also contain suggestions for future discussion on EE/DSM and topics for a future Industry-Regulators Dialogue. The organizing agencies asked the Canadian Gas Association to retain IndEco Strategic Consulting Inc. to prepare this summary report of that record.

This summary report is organized into 4 chapters:

- Chapter 1 introduces the Dialogue on EE/DSM
- Chapter 2 summarizes the key substantive lessons learned from the Dialogue
- Chapter 3 summarizes the key process lessons learned
- Appendix A, B, C, and D contains the session agenda, slide presentations and list of participants for Session 1, 2, 3 and 4, respectively
- Appendix E summarizes for each session the number of attendees by type: regulators; utilities; associations; and other.

1.1 Description of the Dialogue on EE/DSM

The Industry-Regulators Dialogue was comprised of four sessions at different locations over a two-year period: Toronto and Calgary in the spring and fall of 2006, respectively; and Montreal and Toronto in the spring and fall of 2007, respectively.,

Attendance for each session ranged from 35 - 54 participants, which was comprised of senior staff from natural gas and electric distribution utilities, the Canadian Gas Association, the Canadian Electricity Association and energy regulators from across Canada. See Appendix E for a summary of the number of attendees for each session.

The first session was held in one day. The following three sessions were held over two half days, starting with lunch on the first day and ending at lunch the following day. The sessions began with presentations from independent EE/DSM experts and case studies from gas and electric utilities to set the context for session discussions. Roundtable talks followed on issues raised by the experts. Session moderators encouraged participants to ask questions and engage in discussions throughout the session. This mix of presentation-based and discussion-based dialogue provided participants with opportunities to both absorb and contribute information and participate in debate.

Each session focused on a different aspect of EE/DSM:

- **Session 1: Scene Setting** included presentations and discussion on the experience of EE/DSM outside Canada, exploration of different EE/DSM models, how regulators obtain information outside a hearing or docket setting, and EE/DSM targets and performance incentives.

- **Session 2: Structuring the Conversation** included presentations and discussion on the current state of energy efficiency, the difficulties associated with determining actual EE/DSM savings and the track record of EE/DSM in various jurisdictions. Issues discussed included determining externalities, free-ridership, net to gross ratios and attribution.

- **Session 3: Success Factors** included presentations and discussion on the principles of EE/DSM evaluation and evaluation techniques, forecasting, quantifying energy and non-energy impacts, and cost-effectiveness of programs.

- **Session 4: Conservation and Implications on Rate Design and Pricing** included presentations and discussion on the policy drivers and options for EE/DSM and rate design, innovative approaches to EE/DSM, building partnerships between natural gas and electric utilities, the future of EE/DSM, and other implications that needed to be addressed.

See Appendix A, B, C and D for a session agenda for Session 1, 2, 3 and 4, respectively.

1.2 Methodology

In preparing this summary report, IndEco used all of the available sources of information on the sessions. Available information sources included: session agendas, attendee lists, results of participant questionnaires from Session 2, 3 and 4, slide presentations of presenters and informal discussion with the organizing agencies after Session 4 ended. In addition, prior to Session 4, IndEco conducted an interview with representatives of each of the 4 organizing agencies. This included an interview with a

representative of the natural gas industry participants selected by the CGA and an interview with a representative of the electric utility industry participants selected by the CEA, for a total of six interviews. IndEco conducted interviews with:

- Sylvain Audette, Director, Gaz Métro
- Michael Cleland, President and CEO, and Shahrzad Rahbar, Vice President, Strategy and Operations, Canadian Gas Association
- Bob Heggie, Executive Manager, Alberta Energy and Utilities Board
- Gordon Kaiser, Vice Chair, Ontario Energy Board
- Ann Kelly, Senior Advisor, Customer Council, and Hans Konow, President and CEO, Canadian Electricity Association
- Alan Richardson, General Manager, Customer Service, Nova Scotia Power

The interviews, lasting between 60 and 90 minutes, took place between August and October 2007.

IndEco used the session agendas as a starting point for developing the interview questions, the slide presentations as an overview of the main topics covered, and the participant questionnaires to identify which parts of the sessions were of particular interest and why. The most useful information for documenting the themes, process and lessons learned came from the first hand accounts of the interviewees. Due to the time that has elapsed since the sessions took place, the recounts of what was discussed were limited to a high level recollection rather than a detailed account. Therefore, this report documents a high level summary of the key themes that were discussed, the process for the discussion that was adopted, and the lessons learned from this experience.

IndEco prepared a draft report for review by Shahrzad Rahbar of the CGA. IndEco prepared a second draft report in October 2007, based on the feedback received. This second draft was circulated to the 4 organizing agencies for discussion on November 2, 2007 after the completion of Session 4. IndEco prepared a final draft report that was circulated for comment to the organizing agencies in December 2007 and, based on the comments received, prepared this final summary report.

2 Key Themes of the Dialogue

This chapter reflects on the lessons learned related to the main themes of the Dialogue. The main themes were: the appropriate regulatory model for EE/DSM; issues regarding the measurement of EE success; and the role of rate design in EE/DSM. This chapter also contains a list of suggested topics for future discussion on EE/DSM and for a future Industry-Regulators Dialogue.

2.1 Summary of key lessons regarding theme 1: the appropriate regulatory model for EE/DSM

The following are the key lessons learned regarding the appropriate regulatory model for EE/DSM:

- **The regulatory model for EE/DSM should be tailored to local circumstances** - In Sessions 1, 2 and 4, participants heard presentations or discussed two main types of regulatory models for EE/DSM: a centralized delivery model and a utility-run delivery model. It became evident from the probing questions and debate that the choice of model that was made was based on addressing local circumstances. There is no one best model for all jurisdictions. For example, Vermont chose a specialized arms-length central agency for EE/DSM delivery because the state faced a very fragmented market and had no other avenues to develop coordinated outreach to the public. In Quebec, where Hydro Quebec has a monopoly, a single delivery system, and the means for coordinated outreach to the public, market conditions are different and a different model was warranted.

- **Appropriate program design and delivery is essential to the success of the regulatory model** - An EE/DSM regulatory model chosen based on the particular local circumstances will be successful if coupled with effective program design and delivery. To be effective, program design needs to flexible, transparent, diligent and certain. Program design and delivery have a direct impact on the savings and cost effectiveness achieved by a program. For example, choosing the right participants to target, the most appropriate measures and related incentive levels to offer, and the most effective channel partner and consumer engagement strategies is crucial. This will have a positive and direct impact on the level of participant uptake and net benefits of the program to society.

  It is important to learn from the successes and failures of others. There are no "silver bullets" to solving EE/DSM problems.

  With rising energy prices and the growing importance of environmental issues, customers need appropriate tools to deal with these challenges. EE/DSM can contribute to delivery of these tools and local distribution utilities are ideally

positioned to do this. They have EE/DSM experience, an established brand, credibility in the marketplace and are trusted by their customers.

- **EE/DSM has become an important corporate goal for utilities involved in regulated EE/DSM –** From the discussions in all sessions, it is apparent that a transformation has taken place regarding the importance of EE/DSM. EE/DSM has become an important corporate goal in which utilities believe strongly. Utilities are willing to defend EE/DSM and to provide support for it as being a central part of policy for achieving conservation results.

2.2 Summary of key lessons regarding theme 2: measuring EE/DSM success

The following are the key lessons learned regarding measuring EE/DSM success:

- **It is important to measure EE/DSM success** – In Sessions 2 and 3 participants heard presentations that addressed why it is important to measure EE/DSM success. The presentations and ensuing discussion revealed that the measurement of EE/DSM was important for several reasons. It is important for increasing understanding of what EE/DSM programs can accomplish in comparison to other instruments for achieving energy efficiencies. Measurement of EE/DSM is a requirement for establishing whether or not a particular program has the potential to be replicated or expanded. Through measurement, program effectiveness may be attributed to a successful program element that could be applied to relevant EE/DSM programs in other jurisdictions.

  It is important to measure EE/DSM success because of the need to justify expenditures on EE/DSM to ratepayers and stakeholders. Ratepayers need to see that there is value in the dollars spent on EE/DSM and stakeholders need to be satisfied with the cost effectiveness of the program.

  Measurement of EE/DSM serves a further purpose in enabling confident communication to regulators on the cost effectiveness and savings produced by the program.

- **Measuring EE/DSM success accurately is difficult** - In Sessions 2 and 3 participants heard presentations that addressed the challenges encountered in accurately measuring EE/DSM success. The presentations and the ensuing debates indicated that measurement with accuracy is difficult. Measuring EE/DSM is a complex and costly challenge. This is exacerbated because there are no accepted standard methodologies in place provincially, nationally or internationally to measure results either generally or for particular program types.

  The complexity and cost of measuring EE/DSM arises out of the multiple factors that have to be taken into account. Examples of such factors are: spill over effects, free-riders, free-drivers, persistence or the timeframe over which savings are going to continue, predicting technological change, estimating the impact

of the measure that is installed, and measuring the impact of behavioural programs.

There may be a band of cost-effectiveness that should be defined and deemed acceptable, rather than requiring precision. There is a tradeoff between looking at individual inputs in detail and relying on broad principles in their determination. It is important to provide adequate resources for measuring EE/DSM success.

- **Measuring free-riders[1] is a key contentious issue that must be addressed** - In Sessions 2 and 3 there was extensive discussion regarding free-ridership. This is a key contentious issue facing energy regulators and gas and electric utilities. It can impact the net benefits attributed to a program and it can impact utility revenue related to EE/DSM program incentives and lost revenue adjustments. Regulators are wary of utilities over-claiming and overstating program success by inaccurately measuring free-ridership levels and its impact on program cost-effectiveness. It was recognized that this does not obviate the value of EE/DSM. However, it may lead to questions regarding the credibility of EE/DSM. Since there is no accepted way of measuring free-ridership in the academic community, this compounds the contention. It also can make the determination of free-ridership levels costly as large quantities of data may need to be analyzed.

- **Setting EE/DSM targets requires a balancing of interests –** In Session 3, there was discussion on how to set EE/DSM targets. It was pointed out that politicians have a role to play because they set the overall direction on energy policy. However, politicians may lack the technical expertise to set appropriate targets. It was recognized that regulators, when they set targets, are obliged to set them such that they address government policy and the company's business context. Regulators are therefore in the middle, between the interests of the distributor and the politicians. Targets need to be set realistically and with sensitivity to the regulatory and business context.

- **Measuring EE/DSM success may receive greater regulatory scrutiny than a supply side initiative of similar scale** - In Session 3, it became clear that measuring EE/DSM success may be subject to more rigorous regulatory scrutiny than a supply-side initiative of similar scale. Regulators need to make tradeoffs of when and how far to investigate particular issues related to EE/DSM when making decisions on EE/DSM expenditures. It was concluded that, in general, there are more hearing days spent on evaluating EE/DSM expenditures than on evaluating supply-side expenditures of similar scale. Government EE/DSM programs are subject to less scrutiny because their approval is not through a formal hearing process.

[1] A free-rider is a program participant that receives an incentive for taking an energy efficiency action that the participant would have taken without receiving the incentive.

- **EE/DSM has been successful in the past and should continue in the future** - In Session 2, there was a major debate regarding two divergent views of the effectiveness of EE/DSM. One main view expressed was that EE/DSM has not been effective in achieving savings. Historically, energy standards and prices have played a more significant role in achieving overall energy efficiencies. Economic instruments such as price and taxes may be able to achieve greater energy efficiencies than EE/DSM in the future. The other main view expressed was that, based on actual program savings over the years, EE/DSM has been very successful.

  What emerged from this debate was the realization by participants that the two main views were extreme. EE/DSM success is somewhere in the middle. Despite the difficulties associated with determining actual EE/DSM savings, EE/DSM is a valued instrument that should continue to be pursued. In addition to achieving energy savings, EE/DSM is needed to reduce greenhouse gas (GHG) emissions. This is because other policy options, such as carbon sequestration, are costly, and a market for trading GHG credits is not in place.

2.3 Summary of key lessons regarding theme 3: role of rate design in EE/DSM

The following are the key lessons learned regarding the role of rate design in EE/DSM:

- **There is a potential disconnect between the motivations of industry, regulators and consumers related to EE/DSM** - In Session 4, there were presentations and discussion regarding consumer and industry motivations regarding EE/DSM. Consumers are concerned about commodity price, reliability of supply, and in particular the potential for reducing their impact on the environment. Distribution utilities are primarily interested in EE/DSM to reduce supply constraints and where there is an incentive payment for EE/DSM, achieving an appropriate incentive payment. Regulators are primarily concerned with price reliability in setting rates and ensuring that cost-effective EE/DSM takes place. It became evident that there is a lack of consideration of customer needs, in particular regarding EE/DSM and its potential contribution to reduce environmental impact. Better alignment of interests could be accomplished.

- **Smart meters can be effective in reducing peak demand.** In Session 4, there were presentations and discussion on the role of smart meters in achieving reductions in peak demand and overall energy savings. Customers with smart meters and dynamic pricing are more aware of their energy use and will defer electricity use to different times of the day when electricity prices are cheaper. The amount of energy use deferred will be determined by such factors as the timing of the dynamic pricing, the difference between peak and valley prices, and by customer type (whether or not the customer is able to respond to price differentials). For example, the statewide pricing pilot for critical peak pricing in California has yielded, on average, a reduction in peak demand of 13% on critical days.

Research to date is not definitive on whether smart meters achieve any overall reduction in energy use. Customers may still carry out the energy using activity, but at a different time (e.g. dishwasher and clothes dryer are used on a timer after 11:00 p.m.).

There are issues to be worked out regarding the implementation of smart meter technology. For example, a key issue is whether the management and control of the smart meter data should rest with the distribution utility or with a central agency, or with a hybrid model comprised of both central and local utility responsibilities. There is reluctance in some jurisdictions to impose or offer differential pricing (e.g. time of use pricing, critical peak pricing), where customers have working smart meters. Customers tend to want stable pricing and prefer to avoid any price volatility. In some situations political and regulatory response to this tendency has been to avoid putting in place pricing to capture the potential benefits of the smart meter.

- **Alternative rate designs are becoming more prevalent**. In Canada, there are weather normalized adjustments for rates and some use of rate stabilization mechanisms. In the US for natural gas, as of October 2007, there were 11 states with revenue decoupling; 9 with approved rate stabilization tariffs, and 4 with weather normalization. Many alternative rate design approvals were pending as well. On the gas side in the US, alternative rate designs are becoming more prevalent due to high and volatile gas prices, climate change, appliance and building efficiency increases, flat demand and under-recovery of approved costs.

- **The jury is out on revenue decoupling.** Revenue decoupling is the most prevalent form of alternative rate design for gas customers in the US, with 19 million residential gas customers served by this type of rate design. However, not all jurisdictions are choosing revenue decoupling. Other types of alternative rate design may be preferred depending on local conditions. Not all jurisdictions are convinced of the benefits of revenue decoupling even though, for example, California has had natural gas decoupling since 1978 and electricity decoupling since 1982. During this time California has achieved an essentially constant use of energy per customer while the rest of the US has seen a 50% increase in energy use per customer.

2.4 Key topics to consider for future discussion on EE/DSM

Below is a list of key topics to consider for future discussion that emerged from the interview process, or from discussion in Session 4. There was no consensus among the interviewees on whether the suggested topics should be discussed in a future dialogue or in another type of forum.

The following are key topics to consider for future discussion on EE/DSM:

- **Variations in EE/DSM models** – Two generic types of EE/DSM models were explored in the Dialogue: the centralized model and the utility-run model. There was limited attention paid to the variations among models within these generic types and the reasons for this variation. For example, what models might be most appropriate in situations where there is existing infrastructure and what are the implications of stranded assets? Are the drivers for the particular model the same in a regulated versus de-regulated market?

- **Energy poverty and EE/DSM** – The issue of the vulnerable consumer and energy poverty as a policy driver for EE/DSM in the U.K. was presented and discussed in Session 1. It was noted that some customer market segments may require more attention than others. Low-income groups have historically not been the subject of EE/DSM programs in Canada. The main regulatory drivers of EE/DSM are costs to consumers of EE/DSM and the potential savings to be achieved. In general, there is lack of awareness across Canada in the regulatory milieu regarding the impacts of EE/DSM programs on energy poverty.

- **How to measure free–riders** – Free-ridership is a contentious issue inside and outside the hearing room. Discussing a path forward to develop an accepted protocol for measuring free-riders would be helpful. It may also be useful to discuss monitoring and evaluation techniques and practices in more detail.

- **Utilities and weather risk** – There are diverse approaches to the treatment of weather risk by utilities and their regulators. There may be approaches for dealing with weather risk that can be applied to the management of EE/DSM risks for risks over which regulated utilities have no control.

- **Measuring the potential for energy efficiency** – There have been recent national as well as provincial studies that have measured the potential for energy efficiency and to incorporate these findings into demand/supply forecasts. This research could be explored to provide guidance on setting EE/DSM priorities for particular customer markets.

- **Incentives for investment in energy efficiency** – There is a wealth of knowledge and experience in using various types of incentives and incentive levels to stimulate investment in energy efficiency that could be explored to enhance program uptake and savings achieved.

- **Update on EE/DSM practice** – EE/DSM is a maturing practice in Canada and elsewhere. A dialogue on changes and innovation in EE/DSM practice on an annual basis will help to keep practitioners and regulators current.

- **Improving the efficiency of the regulatory process** – Through a discussion of the needs of both the regulator and the utilities in the regulatory process as well as a sharing of experiences, opportunities for improvement could be identified that would be replicable in other jurisdictions.

- **Integrating energy efficiency policy** – Energy efficiency policy impacts and is impacted by economic, social and environmental policy at both provincial and federal levels. A dialogue on examining the need for policy integration and how it might be achieved could be useful.

- **Building the capacity of human resources in EE/DSM** – As EE/DSM professionals retire and EE/DSM initiatives expand, there is a growing shortage of natural gas and electricity professionals available to do all aspects of EE/DSM including regulation and adjudication. In particular, financial regulators will be faced with the task of evaluating social and environmental impacts of EE/DSM. A dialogue to discuss how to address this impending Canada-wide shortage of skills would be timely and useful.

- **Exploring the latest developments in energy efficiency technologies** – The opportunities for energy efficiency from emerging technologies and the barriers to employing these technologies could be explored from a wide range of perspectives including technical, economic, environmental and regulatory.

2.5 Other key topics to consider for future discussion

Key regulatory issues to consider addressing at an Industry–Regulators Dialogue are the topics of Infrastructure and Carbon taxes and carbon emissions. The topics emerged from the last roundtable discussion in session 4 of the Dialogue on EE/DSM on "What other implications need to be addressed?"

The following are key regulatory issues to consider for future discussion:

- **Addressing infrastructure issues** – Building new energy infrastructure is a problem facing the energy industry across Canada. New infrastructure is needed, for example, to address environmental priorities, growing demand, aging infrastructure, and increasing needs for interconnection across jurisdictions. Public opposition to the construction of this new infrastructure has become more widespread and more effective. This opposition makes approvals of this infrastructure more difficult and slower to achieve.

  How to address the concerns of the energy industry, their customers and regulators has become a major challenge both in Canada and the US. A dialogue that explores this challenge could identify and assess broad infrastructure issues and opportunities for action. The dialogue could showcase case studies across Canadian, US and other jurisdictions, presenting common themes of process, regulatory efficiency and social consensus. Invitations could be extended to all three levels of government in Canada, technology providers, regulators, and upstream oil and gas stakeholders as well as participants to the Industry-Regulators Dialogue on EE/DSM. Individual sessions on infrastructure could encompass, for example:

  - **Linear infrastructure** – This session could examine the challenges of siting and approving transmission facilities, distribution facilities and interconnections (e.g. expropriation issues, effective alternative dispute

resolution, shared services and their management). The pros and cons of allocating corridors for linear infrastructure that service a variety of needs beyond energy could be investigated along with examples of successes and failures of planning instruments for designating corridors. As well, alternatives to transmission and distribution facilities could be discussed.

- **Generation plants** - The challenge of siting and approving generation plants including examples of successes and failures from across Canada, the US and other jurisdictions could be presented (e.g. gas and electricity industry partnerships, expropriation issues, effective alternative dispute resolution, fuel mix standards and their implications for regulatory approvals of generation facilities, standard offers and the regulatory approvals of facilities approved under them).

- **Distributed generation** – Distributed generation options (e.g. district heating) could be explored. This could include the challenges with utility connections and regulatory approvals. It could also involve opportunities for gas-electricity industry partnerships and their regulatory implications.

- **Meeting of supply and demand** – Treating energy matters from an integrated and systems perspective is becoming increasingly important as prices rise and environmental issues become part of the immediate political agenda, It may be timely to discuss the lessons learned from jurisdictions in North America (e.g. British Columbia) and elsewhere that have implemented integrated resource planning or other mechanisms. Discussion could include integrated approaches that can be tailored to a broad range of Canadian situations.

- **Carbon tax and emissions trading –** With the growing importance of climate change mitigation and adaptation in Canada, it may be timely to examine the need for, and implications of, a carbon tax and emissions trading of greenhouse gases on the Canadian energy sector. Focus would be on gas and electricity distribution utilities, what role these utilities should play in achieving climate change goals and how this role should be regulated. Case studies in Canadian jurisdictions (e.g. carbon tax in Quebec) and other jurisdictions could be presented.

3 Process of the Dialogue on EE/DSM

This chapter describes the lessons learned related to the process elements that have created this unique and successful forum. Based on the feedback received, it is concluded that the process of the Dialogue is a valid model for stimulating useful discussions on national issues amongst participants. The process enabled balanced communication of the issues, fostered awareness and respect for all perspectives discussed and helped to establish trust among audience groups (regulator, utility, and utility association). Participants asked difficult questions, probed, listened and discussed in a frank and helpful manner in a safe environment. It became evident that regulators and utilities can engage in meaningful dialogue on EE/DSM in an informal setting and have valuable results.

The dialogue process may not just be useful for a national dialogue on EE/DSM. It also may be a useful forum for the natural gas and electrical industries and their regulators to deal with other complex regulatory issues that have a national imperative.[2]

This chapter is divided into two main sections: the first section presents a summary of the key lessons learned and the second section presents key process issues to be resolved should a future dialogue on EE/DSM be held.

3.1 Summary of key lessons learned

The lessons learned regarding the process are organized by type of lesson learned:

- Lessons learned regarding the participants to the discussion
- Lessons learned related to session format

Lessons learned related to participants

Lessons learned related to participants include:

- **Participants should commit to the general process for discussion at the beginning of the process** – At the beginning of the Dialogue the organizing agencies asked participants to commit to attending four sessions on EE/DSM over two years and to agree to an open dialogue based on the Chatham House Rule. The Chatham House Rule allows participants the freedom to voice their own opinions, without concern for their personal reputation or their official duties or affiliations.[3]

[2] See Section 2.4-2.5 for a list of key topics to consider for a future Industry-Regulators Dialogue.

[3] . The rule states: "When a meeting is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed."

- **Participants should be senior representatives of their organization with expertise related to the main topic of the discussion** (in this case EE/DSM) - The high calibre of people who attended the sessions (presidents, vice presidents, directors, chief executive officers, other senior level representatives) facilitated the clear articulation of views and probing of issues. Their attendance fostered discussion of issues at the portfolio and policy level rather than at the detailed program implementation level. This encouraged discussion of EE/DSM issues with representatives from across Canada. The group worked well together.

- **A small group (30-60 participants) is effective for generating productive discussion** – The 35 to 54 participants at each session proved to be a good number for productive discussion and debate. The numbers were sufficient to pay for organizing and implementing the Dialogue, by charging a modest fee. Having a significantly larger group could make it harder to create the intimate and safe environment that was fostered with a small number of participants. It would become more difficult to achieve continuity in participation with a much larger group. With many more attendees, the discussion would start to resemble a workshop or conference. Such forums are available at events such as CAMPUT.

  Over the course of the sessions attendance at the Dialogue on EE/DSM had increased. A summary of attendance can be found in Appendix E.

- **There should be a small core group that is responsible for organizing and facilitating the sessions** - The Dialogue was organized by the four organizing agencies of the Dialogue. Each agency was responsible for organizing one session. This involved setting the agenda, arranging for the presenters and handling venue logistics. Having a core group with this responsibility worked well. It was efficient, cost-effective and capitalized on the different perspectives of the agencies in creating the agendas.

Lessons learned related to session format

Lessons learned related to the session format include:

- **The unique process for the Dialogue was very effective** - The Dialogue was the first time in Canada that senior representatives from regulators, natural gas and electricity distribution companies and their business associations from across Canada met informally to discuss regulatory issues. In this case they discussed EE/DSM issues in a collaborative setting with a long term focus. Before this Dialogue, regulators and industry representatives communicated on EE/DSM in a hearing room or alternative dispute resolution process. In these formal settings, the focus is on short term, rather than long term issues, and the CGA and the CEA do not participate. The high quality, open and productive discussions that took place in this Dialogue is a testament to the effectiveness of this model. It is a useful tool for engaging dialogue on common regulatory issues among these groups.

- **Sessions should be of sufficient number and frequency to cover the main topic of discussion adequately** - Two sessions per year over two years worked well for the Dialogue**.** Two sessions per year was a significant commitment for senior representatives to make, but was manageable. Having a total of four sessions was appropriate to cover a new topic, such as EE/DSM, in depth. Having the sessions over one year rather than two years may help to maintain high participation levels. A shorter time frame may also contribute to enhanced retention of the subject matter. For a future discussion on EE/DSM, fewer sessions may be sufficient to keep participants current on new developments or to discuss particular issues in more depth. However, attending an increased number of sessions in a year may prove to be too difficult a commitment for senior managers and regulators to fulfill due to their busy schedules.

- **The session should be spread over two consecutive days –** Organizing agencies experimented with different models for the length and duration of the session. Based on feedback received from participants, having the session spread over two consecutive days starting with lunch on day 1 and ending with lunch on day 2, with a dinner in between on day 1 was preferred. Having the session over two days instead of during one day was preferred. This allowed for more networking and helped to avoid discussion fatigue. Starting and ending at lunch made travel easier.

- **The sessions should take place in different locales across Canada** - The Dialogue on EE/DSM took place in Toronto and Calgary in the spring and fall of 2006, respectively, and Montreal and Toronto in the spring and fall of 2007, respectively. As this was a national dialogue it was appropriate to have the sessions at different locations across the country. This approach gave the local regulator and companies an opportunity to become more involved in the discussion because more of their representatives could attend. Having the sessions in different locales across Canada also gave credibility to the Dialogue as having a national and inclusive focus.

- **The sessions should be held in private and relaxed settings -** The sessions and dinner took place in venues that afforded a private, comfortable and relaxed setting for discussion and for networking. The setting facilitated open discussion as well as the development of relationships among participants.

- **The session agenda should begin by setting the scene and then provide opportunities for open discussion** – The session agenda evolved in response to process issues raised by participants. The later session agendas were very successful because of this responsiveness. The final agenda format was as follows:

    - On the first day of the session, presenters discussed particular topics through utility and non-utility examples in Canadian and non-Canadian jurisdictions, setting the context and the principles for discussion;

- At the end of day 1 the moderators met with the presenters from their sessions to discuss key areas of focus for day 2. The moderators invited the presenters to return on day 2 to provide 10-minute presentations on the particular issues identified to stimulate open floor discussion and debate;

- Participants spent day 2 discussing these key issues from day 1;

- The organizing agency for the session chose dynamic lunch and dinner speakers to talk about relevant topics.

The format for the agenda arose out of the objective to design a session that addressed the topic area comprehensively in an environment without adversaries, through independent speakers, and with neutrality. To achieve neutrality and to challenge the status quo, the four organizers deliberately chose experts with views that departed from the commonly held views of the participants. In this way, participants were challenged to see EE/DSM from a variety of perspectives. This approach encouraged an examination of a broader landscape of ideas, enriched the dialogue and resulted in more robust points of view.

- **It is important to keep a record of the key outcomes of the sessions** – At the end of Session 3, the organizing agencies concluded that a record of previous sessions and the final session was desirable. This was needed to preserve what was learned and to provide a guide for any future national discussion on EE/DSM that might take place. The educational merit of the Dialogue had exceeded expectations of the organizing agencies and participants. As a result, the agencies found that it would be useful to participants to keep an accurate record of the presentations, the discussion outcomes and the lessons learned without threatening the openness of the forum. For the first three sessions, the organizing agencies decided not to keep a record of the sessions. This was done to ensure that participants would feel that they could discuss matters in an open forum without repercussion. With the safety of the non-threatening session environment secure, informal note-taking efforts were initiated for Session 4 to record key themes and outcomes without attribution.

3.2 Key process issues to be resolved for a future dialogue on EE/DSM

The following process issues that need to be addressed regarding any future dialogue were raised in the interview process for the preparation of this summary report.

If there were a future dialogue on EE/DSM should the range of participants be expanded? If so, who should be the participants?

Differing and not necessarily mutually exclusive views were expressed on whether or not the range of participants should be expanded and who should be included. One view expressed was that the focus of the dialogue should be to educate regulators and industry on EE/DSM. As a result, participants (other than regulators or industry

professionals) should be invited only for the purpose of improving the educational value of the session regarding EE/DSM and to give greater importance to the key outstanding issues.

Another view was that it is important that the range of participants should be expanded only in a way that does not impinge on creating the safe environment required for open discussion. Care must be taken not to create a competitive environment and a lack of trust among participants. The goal is not to duplicate the parties to a hearing room. There are other events that provide the opportunity for sharing views in a broader forum such as at CAMPUT. The dialogue could be a vehicle to discuss views and develop lessons learned in a more informal setting and then share these views and lessons learned with larger audiences.

There was discussion on whether or not decision-makers such as politicians and bureaucrats should be included as participants. On the one hand, it was recognized that decision-makers should be included in the dialogue since they set the policy that regulators must implement. Their participation is necessary if change in the legislative framework related to EE/DSM is required. On the other hand, regulators must maintain their arms length relationship with decision-makers, preserve their independence and the credibility of their regulatory decisions.

A compromise view that was expressed involved inviting decision-makers as presenters. In this way participants would have the benefit of learning about the views of decision-makers and having fruitful discussions with them, while focusing their involvement in particular areas. As trust was gained, the role of the decision-makers could be expanded depending on the topics to be addressed.

If the range of participants is to be expanded, then the total number of participants allowable at a session becomes an issue. Sessions with 30-60 participants were found to be successful. Care must be taken to ensure that the numbers do not become unmanageable or lead to a different type of discourse than the informal, open dialogue that has been established.

If there were a future dialogue, how many sessions would be necessary, and over what time period?

Differing and not necessarily mutually exclusive views were presented on how many sessions would be necessary and over what time period. There was general agreement on determining the number of sessions based on the quantity of material to be covered. Two main views were expressed on the time period for any future dialogue: over one year and over two years. A one-year time frame would ensure continuity in industries with high turnover. A one-year time frame would also be conducive to a dialogue whose purpose was to keep participants current on new initiatives/trends in EE/DSM. A two-year time frame would be more manageable for senior representatives that would be attending the sessions and would facilitate organization of the events by the organizing agencies.