

# Union Gas proposes to double its conservation budget, but will save 50% less gas

Union Gas, Ontario’s largest natural gas utility, is seeking permission from the Ontario Energy Board (OEB) to double its energy conservation budget. But at the same time, the utility wants to *reduce* its energy savings targets by approximately 50%.

Specifically, Union Gas wants to increase its conservation spending from \$32.8 million in 2013 to \$64.7 million in 2020 and reduce the cumulative savings of its conservation programs from 2.8 to 1.3 billion cubic metres.

## Union Gas’ Energy Conservation Budgets and Savings Targets

	2013 (Actual) <sup>1</sup>	2020 (Proposed) <sup>2</sup>	Change
Energy Conservation Budget	\$32.8 million	\$64.7 million	+ 97%
Energy Savings Target	2.8 billion cubic metres	1.3 billion cubic metres	- 54%

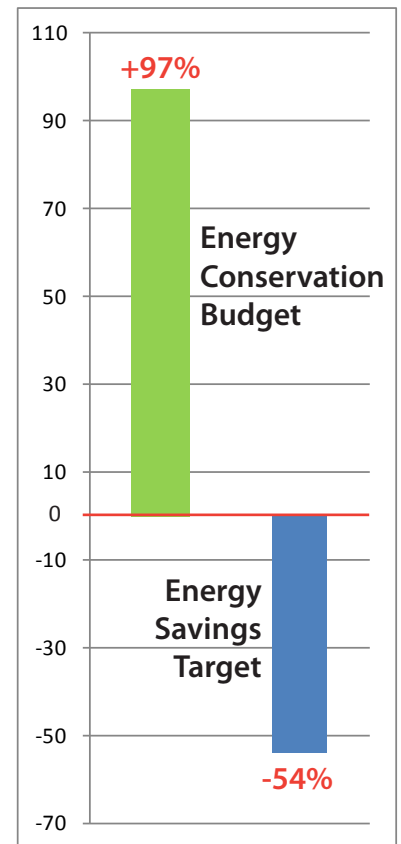
The 50% decline in forecast energy savings is due to Union’s decision to cancel its highly cost-effective energy conservation program for its large volume industrial customers.

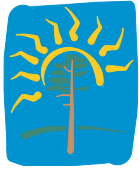
In 2013, this program was the most cost-effective energy conservation program in North America, yielding \$54 of cumulative *net* bill savings for large volume industrial consumers for every \$1 invested by Union Gas.<sup>3</sup> In 2013, 82% of Union’s large volume industrial customers participated in this program.<sup>4</sup>

Nevertheless, Union Gas is proposing to cancel this program, effective Jan. 1, 2016, in response to an OEB recommendation that it should cease providing financial incentives to its large volume industrial customers to encourage them to increase their energy productivity.

According to the OEB, financial incentives are **not** necessary since “these customers are sophisticated and typically competitively motivated to ensure their systems are efficient.”<sup>5</sup> Unfortunately, the OEB’s assertion is merely wishful thinking and not supported by any empirical evidence. For example, the OEB’s assertion ignores the uncontested fact that Ontario’s industries are simply **not** undertaking all cost-effective energy efficiency investments. According to a report by the Canadian Manufacturers & Exporters (CME), if all the remaining economically feasible best practices were implemented, Ontario’s total industrial energy consumption would fall by 29% by 2030 relative to the business-as-usual scenario. Fifty percent of these savings would be due to reduced use of natural gas.<sup>6</sup>

## Percentage change in Union Gas’ 2020 spending and savings targets





ONTARIO  
CLEAN AIR  
ALLIANCE  
RESEARCH

CleanAirAlliance.org

Thanks to  
the Echo  
Foundation and  
the Taylor Irwin  
Family Fund for  
their support

The OEB's assertion also ignores the fact that our manufacturing companies often require a payback period of one year or less for energy efficiency investments.<sup>7</sup> As a result, financial incentives are necessary to motivate them to make cost-effective energy productivity investments that have payback periods that are greater than one year.

Some industry members have opposed incentives on the grounds that they provide preferential benefits to some companies. However, with the vast majority of customers (82%) benefitting from Union's incentive programs in 2013, this is a highly inflated concern. And by reducing the need for expensive new infrastructure, these incentives actually lower costs for all customers.

Simply relying on companies to take the initiative to prioritize efficiency measures over other actions will not be successful as companies have many competing uses for capital, including pressure to return funds to shareholders. Meanwhile, the province continually provides supports to industries (including energy cost subsidies) that do not have nearly the effectiveness (or financial sustainability) of efficiency investments in lowering costs and improving competitiveness.

But while the OEB's recommendation is without merit, the good news is that it is also not legally-binding. Specifically, the OEB has stated that Union can seek permission to maintain the most cost-effective energy conservation program in North America by providing "evidence" to show that it would be in the "public interest" to do so.<sup>8</sup> Unfortunately, Union Gas has not taken this step.

## Conclusion

The continuation of Union Gas' very cost-effective energy efficiency program for its large volume industrial consumers will provide the following benefits:

- It will lower the energy bills and increase the energy productivity and competitiveness of Ontario's manufacturing and resource industries;
- It will help Ontario achieve its 2020 greenhouse gas emission reduction target at no net cost to the Ontario economy; and
- It will reduce the outflow of Ontario dollars to western Canada and Pennsylvania to purchase natural gas. The result will be more jobs in Ontario.

**It is time for Ontario Energy Minister Bob Chiarelli to work with the OEB and Union Gas to ensure that Ontario's largest gas utility continues to provide financial incentives to its large volume industrial customers to encourage them to increase their energy productivity and competitiveness.**

## Endnotes

- 1 Union Gas, *Final Demand Side Management 2013 Annual Report*, (November 4, 2014), pages 17 & 18.
- 2 Ontario Energy Board Docket No. EB-2015-0029, Exhibit A, Tab 3, pages 6 & 12.
- 3 Union Gas, *Final Demand Side Management 2013 Annual Report*, (November 4, 2014), page 16; and Ontario Energy Board Docket No. EB-2014-0134, *Union Gas Submission*, (October 15, 2014), pages 5 & 6.
- 4 Union Gas, *Final Demand Side Management 2013 Annual Report*, (November 4, 2014), page 75.
- 5 Ontario Energy Board, *EB-2014-0134 Report of the Board: Demand Side Management Framework for Natural Gas Distributors (2015-2020)*, pages 27 - 29.
- 6 CME Ontario, *Advancing Opportunities in Energy Management in Ontario Industrial and Manufacturing Sector: Final Report*, (March 17, 2010), pages 39 & 40.
- 7 Christopher Russell and Rachel Young, American Council for an Energy-Efficient Economy, *Understanding Industrial Investment Decision-Making*, (October 2012), page 16.
- 8 Ontario Energy Board, *EB-2014-0134 Report of the Board: Demand Side Management Framework for Natural Gas Distributors (2015-2020)*, page 2.