



PO Box 815 • Winnipeg Manitoba Canada • R3C 2P4
Street Location for DELIVERY: 22nd floor 360 Portage Ave
Telephone / N^o de téléphone : 204-360-3468 • Fax / N^o de télécopieur : 204-360-6147 • mboyd@hydro.mb.ca

June 11, 2013

PUBLIC UTILITIES BOARD OF MANITOBA
400-330 Portage Avenue
Winnipeg, Manitoba
R3C 0C4

ATTENTION: Mr. H. M. Singh, Board Secretary and Executive Director

Dear Mr. Singh:

**Re: Centra Gas Manitoba Inc. ("Centra")
2013/14 General Rate Application –Rebuttal Evidence (Oppenheim)**

Please find attached nine (9) copies of Centra's Rebuttal Evidence with respect to the pre-filed evidence of Mr. Oppenheim on behalf of the Consumers Association of Canada (Manitoba).

Centra will file the balance of its Rebuttal Evidence addressing the pre-filed evidence of Mr. John McCormick as soon as possible.

This submission has also been provided to the PUB Advisors and all registered interveners. Should you have any questions with respect to this submission, please contact the writer at 204-360-3468 or Greg Barnlund at 204-360-5243.

Yours truly,

MANITOBA HYDRO LAW DEPARTMENT

Per:

A handwritten signature in black ink that reads 'M. Boyd'.

Marla D. Boyd

Barrister and Solicitor

cc: Mr. B. Peters, Fillmore Riley
Mr. R. Cathcart, Cathcart Advisors Inc.
Mr. B. Ryall, Ryall Engineering
Registered Intervenors

MANITOBA PUBLIC UTILITIES BOARD

IN THE MATTER OF the Public Utilities Board Act (Manitoba)

**AND IN THE MATTER OF Centra Gas Manitoba Inc.
2013/14 General Rate Application**

REBUTTAL EVIDENCE OF CENTRA GAS MANITOBA INC.

**WITH RESPECT TO THE WRITTEN EVIDENCE OF
J. Oppenheim on behalf of
Consumers Association of Canada (Manitoba)
(CAC)**

CENTRA GAS MANITOBA INC.
2013/14 GENERAL RATE APPLICATION

REBUTTAL EVIDENCE
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1 **1.0 Introduction**

2
3 On January 25, 2013, Centra filed its General Rate Application (“GRA”) requesting approval of
4 natural gas rates to be implemented August 1, 2013. On May 10, 2013 Centra updated its
5 Application to include a Cost of Gas based on the April 2, 2013 forward price strip. On May 27,
6 2013 the Consumers Association of Canada (Manitoba) (“CAC”) filed the evidence of Jerrold
7 Oppenheim which dealt with Centra’s furnace replacement program and other DSM related
8 matters.

9
10 The purpose of this Rebuttal Evidence is to provide Centra’s response with respect to the pre-
11 filed evidence of Mr. J. Oppenheim.

12
13 **2.0 Evidence of Mr. Jerrold Oppenheim**

14
15 Mr. Oppenheim’s evidence discusses the creation of an external energy efficiency agency
16 separate from Centra to administer the Furnace Replacement Program (“FRP”), recommends
17 an increase of annual funding to the FRP, a reduction of the current customer co-payment for
18 furnaces, and an investigation of administrative expenses. Mr. Oppenheim also recommends
19 that Centra hire a contractor to conduct physical inspections of insulation levels and for Centra
20 to establish a budget for lower income rental buildings. Mr. Oppenheim finally suggests that the
21 implications of bill assistance be further investigated, and that a discounted rate for lower
22 income customers be considered.

23
24 Centra’s rebuttal evidence will demonstrate that the FRP is achieving the desired results and
25 there is no need for a third party agency to be retained to manage this program. The current
26 administrative expenses, including marketing costs, are reasonable and in Centra’s respectful
27 submission are lower than they would be if the program were to be operated by an external
28 entity. Centra is satisfied that there is no need to increase the funding for the FRP, and that the
29 current co-payment does not require adjustment to increase participation in the program.
30 Centra’s evidence will show that Mr. Oppenheim’s recommendations regarding the need for
31 physical inspection of insulation levels in lower income homes is currently undertaken, and that
32 the existing Power Smart initiatives include measures that assist in lower income rental
33 buildings. Centra’s evidence will also demonstrate that the Corporation has in fact adequately
34 completed a demographic study, and will address Mr. Oppenheim’s suggestion regarding
35 consideration of a discounted rate for lower income customers.

36
37

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1 **2.1 External Energy Efficiency Agency**

2 Mr. Oppenheim suggests that a “community-based efficiency agency” should be engaged to
3 implement the lower income programs” (Evidence of Oppenheim, page 31). Centra has
4 expanded the outreach of its lower income program by partnering with neighbourhood and
5 community groups to deliver the lower income program in regional areas. To date, two such
6 community based organizations have launched initiatives. Centra recognizes the value in
7 working with community groups as they have established relationships within their community
8 and can potentially further penetrate the market with promotion of the Lower Income Energy
9 Efficiency Program (“LIEEP”) and FRP at community events, and in community newsletters.
10 Centra provides funding to these community groups to support their neighbourhood initiatives.

11
12 With regard to “the formation of a separate, community-based energy efficiency agency to
13 implement the lower income programs” (Evidence of Oppenheim, page 9), Mr. Oppenheim did
14 not identify any one specific community organization that would be capable of operating a
15 program of the size and scope of the LIEEP or FRP in Manitoba (Oppenheim response to
16 PUB/CAC-16). Centra notes that the development of such an agency could take significant time
17 and resources to establish and implement without any assurance of successful or enhanced
18 program delivery. Oppenheim’s proposal fails to recognize that Centra is uniquely positioned to
19 effectively deliver such programming. Centra can access and leverage important resources
20 such as its in-house expertise in building systems and energy utilization technologies and brings
21 considerable strength and organizational experience in the successful development and delivery
22 of DSM programming. The Corporation is already working with community groups in delivering
23 the program and has the experience gained having been involved in delivery of the FRP for over
24 five years. The creation of an external energy efficiency agency would be redundant and result
25 in additional risks and costs associated with setting up the required infrastructure.

26
27 Mr. Oppenheim’s suggestion appears to be based on the notion that Centra has not
28 implemented the program adequately. However, the current market penetration of 8% must be
29 evaluated in the context of the LIEEP and FRP being relatively new programs as these
30 programs were only introduced in 2007 and 2008, respectively. Evidence previously filed with
31 the PUB by Tom Carter, Carter Research Associates, on behalf of CAC, states that “Experience
32 in many jurisdictions has shown that low income households are hard to reach, even when
33 products, services, and programs are free. A review of US LIEEPs reveals that annual
34 participation in programs averages about 2% of eligible consumers¹.” Since 2010/11, Centra
35 has experienced annual market participation of 2% or greater.

¹ Carter, Tom. December 2010 *Energy Programs and Poverty Alleviation: A Discussion Paper*, Carter Research Associates, Winnipeg, Manitoba. Page 44. Filed by the Consumers Association of Canada (Manitoba) and the Manitoba Society of Seniors in the 2010/11 & 2011/12 Electric General Rate Application.

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1 It should also be noted that The 2009 Residential Energy Use Survey Report – Low Income
2 Cut-Off (LICO) Sector indicates that 35.8% of LICO-125 customers with natural gas service
3 reported participating in at least one Residential Power Smart program (see page 49 of
4 attachment to Centra’s response to CAC/Centra I-20(a)) and, although is lower than the 45.5%
5 reported by non-LICO-125 customers, is more comparable.
6

7 Further, Mr. Oppenheim has incorrectly interpreted Order 128/09 in his evidence wherein he
8 stated that Centra was ordered to spend \$3.8 million annually (Evidence of Oppenheim, page 7,
9 lines 21-23). In Order 128/09, Centra was directed to contribute \$3.8 million to the FRP and has
10 complied with this directive. Centra also expects to achieve the target to replace all standard
11 efficient furnaces in lower income households by September 2019 (page 39, Order 128/09), as
12 outlined in Centra’s response to PUB/Centra II-172(d).
13

14 **2.2 Increase Annual Funding of Furnace Replacement Program**

15 Centra notes that Mr. Oppenheim’s recommendation to provide additional funding to the FRP in
16 order to achieve the replacement target cited above (Evidence of Oppenheim, page 10, lines
17 18-29) is not required, as the funds available for use in the FRP are projected to exceed the
18 amounts required to support the FRP, beyond 2018/19 when virtually all standard furnaces are
19 anticipated to be replaced with high efficiency furnaces as outlined in Centra’s response to
20 PUB/Centra II-172(d).
21

22 **2.3 Furnace Replacement Program Co-payment Reduction**

23 Mr. Oppenheim offers no evidence in support of his recommendation to reduce the co-payment
24 for the Furnace Replacement by 50%. Centra notes that only 18 customers or 7% have opted to
25 not proceed with their furnace upgrade through the FRP. As the reasons for electing not to
26 proceed are not reported, this may be for a variety of reasons and cannot be assumed to be as
27 a result of the co-payment requirement. By comparison, 177 customers or 9% opted not to
28 proceed with the recommended free insulation upgrades offered under the program. Feedback
29 to date from low-income customers participating in the program indicates that the low furnace
30 cost of only \$19 month is the most often cited reason for participation. Mr. Oppenheim suggests
31 Centra should follow Efficiency Nova Scotia as all measures are provided free of charge
32 (Evidence of Oppenheim, page 13 lines 6-15). However, the Efficiency Nova Scotia program
33 does not include high efficiency natural gas furnaces. Customers participating in Centra’s FRP
34 benefit by having loan payments for only five years at approximately the same value as the bill
35 savings achieved and an immediate capital upgrade benefit, which increases the value of their
36 property.
37
38

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1 **2.4 Administrative Expense**

2 Mr. Oppenheim suggests that Centra's administrative expense has "risen substantially" and is
3 "higher than at most successful programs" (Oppenheim, page 7, line 36-40). Centra's
4 administrative expense includes all administrative costs associated with the program, including
5 support from technical experts and marketing. The lower income sector is typically defined as a
6 "hard to reach" market and as such, Centra uses a variety of marketing channels such as mass
7 media, outbound calling, direct mailers, and bill inserts. In addition, Centra is partnering with
8 neighbourhood and community groups and funds their associated operating costs. Mr.
9 Oppenheim notes in the response to PUB/CAC-11(b), that the administrative expense for the
10 most successful U.S. low-income program is 30.9%, which is relatively consistent with Centra's
11 administrative expense of 32%. Administrative expenses are typically a greater percentage of
12 program costs for programs targeting these hard to reach markets; however, in Centra's view,
13 these activities have been successful as participation is increasing over time.
14

15 **2.5 Assertion that the Corporation has not Completed a Demographic Study**

16 Mr. Oppenheim asserts that the Corporation has not completed a demographic study "to gain
17 additional data and determine with increased precision the specific geographic locations of
18 lower-income customers (Evidence of Oppenheim, page 5 lines 9-11). This is incorrect.
19

20 Centra met the requirements of Directive 34 of Order 128/09 to provide a demographic survey
21 with the filing of the 2009 Residential Energy Use Survey Report – Low Income Cut-off (LICO)
22 Sector, on May 28, 2010 and a revised report on August 31, 2010. As per the Directive, the
23 report and data collected addressed the number of lower income customers, number and type
24 of heating equipment for lower income customers, type of housing, and the relationship between
25 consumption and income levels. In addition, Centra looked at other components of how energy
26 is used in the lower income market.
27

28 Although respondent information was collected geographically at the first three digit level of the
29 postal code and is available for program use, it was not specifically included in the analysis of
30 the report as the number of returned surveys at this level would be insufficient to produce
31 statistically valid conclusions. As with all programs, Centra uses other available sources of
32 market data to refine program strategies and designs. Centra used Statistics Canada Census
33 data as outlined in Centra's response to CAC/Centra II-61 to implement targeted mailings at the
34 neighbourhood level.
35

36

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1 **2.6 Hire an Independent Engineering Contractor to Conduct Physical Survey of**
2 **Insulation in Lower Income Households**
3

4 Mr. Oppenheim has suggested that the Board should order Centra to hire an independent
5 engineering contractor to conduct a physical survey of the present condition of lower income
6 household insulation (Evidence of Oppenheim, page 10). Through the LIEEP program, 6,579 in-
7 home energy evaluations have been completed on qualifying lower income homes by external
8 contractors certified as Energy Advisors under NRCan's ecoENERGY program. The current
9 contract provider has been active in the energy evaluation field for several years, performing
10 thousands of in-home energy evaluations in accordance with Natural Resources Canada's
11 energy evaluation methodology and requirements. All advisors are certified Natural Resources
12 Canada Energy Advisors. The contractor also has extensive experience working with a broad
13 range of Manitoban non-profit social housing agencies, including Habitat for Humanity,
14 Winnipeg Housing Rehabilitation Corporation, Manitoba Housing, Kinew Housing and a number
15 of First Nation Communities. Based upon these comprehensive information sources, Centra is
16 confident in its assessment of the lower income market and that no further inspection is
17 required.
18

19 **2.7 Establish a Budget for Lower Income Rental Buildings**

20 Mr. Oppenheim suggests that the Company should be ordered to establish a budget for lower
21 income rental buildings (Oppenheim, page 16). As outlined on page 4 of Centra's response to
22 CAC/Centra I-20(e), the Power Smart initiative has been and continues to target cost effective
23 energy efficient opportunities within the multifamily commercial building sector with over 3,200
24 buildings or 68% participating in at least one Power Smart offering. To facilitate additional
25 participation within this market sector, the Corporation developed a customized marketing
26 package for property managers and owners. The Corporation plans to launch a commercial
27 version of PAYS in the near term complimenting the existing portfolio of Power Smart incentive
28 programs. Under the commercial building PAYS offering where the energy bill savings are
29 sufficient to offset the monthly financing charge net of any Power Smart incentives, the property
30 manager would be able to finance the energy efficient upgrade on their energy bill thereby
31 mitigating the upfront capital investment requirement that can be a barrier to proceeding.
32

33 **2.8 Contract for Independent Process and Impact Evaluation**

34 Centra disagrees with Mr. Oppenheim's statement that Centra's LIEEP Impact Evaluation Plan
35 is inadequate. Centra's approach to impact evaluations is valid and consistent with other
36 jurisdictions in North America. The installation of energy efficiency measures are verified by pre
37 and post evaluations of participating homes by independent, external energy advisors. These
38 evaluations were conducted by energy advisors certified through the Federal ecoENERGY

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1 program. With the end of the ecoENERGY program, these evaluations continue to be performed
2 by an independent, external firm with certified energy advisors.

3
4 Centra agrees there is value in undertaking a process evaluation of the LIEEP program
5 however, the Corporation questions the value in hiring a third party to undertake the evaluation.
6 As part of the Corporation's ongoing efforts to improve the effectiveness of its LIEEP program,
7 the following initiatives have been undertaken:

- 8 - Streamlining its application process;
- 9 - Undertaking an informal customer survey;
- 10 - Undertaking customer awareness surveys;
- 11 - Meetings and ongoing discussions with program partners (e.g. community and neighbor
12 groups);
- 13 - Researching lower income programs in other regions;
- 14 - Reviewing and modifying internal procedures and processes;
- 15 - Reviewing the effectiveness of marketing materials (e.g. by asking how customers heard
16 about the program);
- 17 - Meetings with contractors to solicit feedback;
- 18 - Meetings with external energy advisors to solicit feedback.

19
20 **2.9 Need for Independent Assessment of Engineering Estimates**

21 Mr. Oppenheim suggests "the engineering estimates themselves have not been tested and
22 evaluated by an independent entity" (Oppenheim, page 21, lines 6-7). Centra disagrees that this
23 evaluation must be undertaken by an independent entity.

24
25 Centra notes that for programs such as LIEEP with straightforward measures and fairly
26 homogeneous consumption patterns, the use of deemed savings to measure the impact of the
27 program is appropriate. Deemed savings are based on engineering estimates that consider
28 generally accepted values (i.e. those used by other utilities and the American Society of
29 Heating, Refrigerating and Air Conditioning Engineers (ASHRAE)). Data is collected for each
30 installation on factors such as the scale of the upgrade, the size of the dwelling, and the
31 technologies installed, to adjust the deemed savings to appropriately reflect the impact of the
32 program.

33
34 Centra agrees there is value in undertaking a billing analysis for a sample of retrofitted homes
35 under the LIEEP program. Centra is currently undertaking such an assessment and sees no
36 value in hiring an independent entity to undertake this evaluation when the Corporation has
37 access to the billing data and the internal resources and expertise.

38
39

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1 **2.10 Evaluation Using a Risk-free Discount Rate**

2 Mr. Oppenheim recommends that impact evaluation of low income programming should
3 consider a risk-free discount rate instead of the Corporation's weighted average cost of capital
4 ("WACC").

5
6 Centra noted in response to CAC/Centra II-78(a) that the 2011 Power Smart Plan was
7 evaluated using a WACC of 6.1%. Centra's WACC is the Corporations' overall cost of financing
8 and is therefore the minimum expected rate of return that would be acceptable to justify making
9 an investment. The imputed return on equity (included in WACC) is not considered to be a risk
10 premium but rather a corporate financial target. Depending upon the type of investment being
11 evaluated, the Corporation may include a further risk premium to the WACC to derive a hurdle
12 rate for that type of investment.

13
14 For the purposes of evaluating investments in low income programming, Centra applies the
15 WACC, without any additional risk premium.

16
17 **2.11 Further Investigate Bill Assistance for Lower Income Customers**

18 Mr. Oppenheim is recommending that the "implications of bill assistance to lower income
19 customers should be further investigated" (Evidence of Oppenheim, page 3, lines 20-21). On
20 page 28, lines 10 through 12, Mr. Oppenheim goes further and recommends that "Bill
21 Assistance to lower income customers should be increased. Consideration should be given to a
22 discounted rate for lower income customers."

23
24 In making these recommendations, he quotes extensively from Order 128/09. However, while
25 his evidence acknowledges an extensive regulatory record on this matter, it does not draw on
26 any of this record beyond Order 128/09. The definitive proceeding in which this issue was
27 reviewed in Manitoba was the 2010/11 Manitoba Hydro General Rate Application. In that
28 proceeding the intervener RCM/TREE urged the PUB to direct that Manitoba Hydro provide a
29 program of low income Bill Assistance and introduced expert evidence by Mr. Roger Colton, a
30 well known activist for such provisions in many US regulatory jurisdictions.

31
32 Mr. Oppenheim's evidence wrongly cites U.S. jurisdictions' low income bill assistance
33 programming as providing precedents for Manitoba utilities to engage in similar practice. Again,
34 this was an issue that was addressed during the above mentioned Manitoba Hydro proceeding.
35 Mr. Oppenheim's evidence ignores the legislative framework in Manitoba.

36
37 Mr. Oppenheim's evidence on pages 28 through 30 cites the programming in U.S. jurisdictions
38 as providing support for similar programming in Manitoba. At page 28, lines 13-15, he states:

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1 *“Research that I and others have conducted for decades shows that three-fifths of US states*
2 *provide lower rates for lower income households in order to increase the likelihood that they will*
3 *be able to pay their energy bills.”* Rate affordability programs of the type discussed by Mr.
4 Oppenheim have not been implemented in any Canadian jurisdiction. Comparison with U.S.
5 jurisdictions in order to justify the implementation of such a program in Manitoba is not
6 appropriate. There is a significant difference between Canadian and U.S. jurisdictions with
7 regards to the income assistance offered from state to state and when compared with the
8 income assistance offered in Manitoba. Further, bill assistance programming in U.S.
9 jurisdictions is typically mandated by state legislatures and funded, at least in part, by the
10 federal government.

11
12 During the 2010/11 Manitoba Hydro GRA, a number of points were raised, most of them by
13 CAC’s own witness at that proceeding, to the effect that formal bill assistance programming is
14 not an appropriate role for a utility, is of limited effectiveness in meeting need, may be
15 discriminatory against some low income customers and could be very costly. A useful summary
16 of some of the practical difficulties that limit the effectiveness of such programming, cited by the
17 CAC witness, Dr. Carter, including challenges with low participation rates, difficulty identifying
18 the working poor, high mobility rates, and apprehension and suspicion about dealing with
19 government, is found in Order 5/12, pages 155 through 157.

20
21 In summary, CAC’s witness in the 2010/11 Manitoba Hydro GRA supported low income energy
22 efficiency programming, as well as crisis intervention and arrears management, but did not
23 recommend a low income bill assistance program for the reasons including those cited in Order
24 5/12Order. CAC concluded that for many low income customers in Manitoba, a bill payment
25 assistance program would not be beneficial as these customers already receive social
26 assistance to support energy bill payments, and such social assistance varies with the cost of
27 energy to the customer. As also stated in Manitoba Hydro’s Rebuttal Evidence at the 2010/11
28 Manitoba Hydro GRA,

29
30 *“...customers on Social Assistance can either have their bills directly paid by the*
31 *social agency or can receive a cash supplement to assist in utility bill payment. In*
32 *such cases, the implementation of an affordable energy program such as*
33 *proposed by Mr. Colton would have no impact on the energy burden for those*
34 *customers.”* (Page 91: 18-21.)

35
36 Also, during the 2010/11 Electric GRA Manitoba Hydro provided evidence that a Bill Assistance
37 program such as that then being promoted by RCM/TREE and its witness, Dr. Colton, could
38 cost Manitoba Hydro ratepayers as much as \$50 million per year, or about a 5% increase in
39 customer bills (Tr. 8882:10 – 8883:2). Similar metrics would likely apply to a similar program for
40 natural gas customers.

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1
2 Although the issue was extensively canvassed during the proceeding, the ensuing Order 5/12
3 did not include any specific directive. The discussion on pages 166-167 of that Order would
4 appear to represent the most recently-delivered finding of the PUB on this matter.
5

6 *“Before the Board is prepared to require MH to develop a definitive bill assistance*
7 *program along the lines of the program proposed by RCM/TREE, the Board*
8 *needs further information as to existing funding made available by government*
9 *and the programs available to directly or indirectly alleviate energy poverty.*
10

11 *The Board is firmly of the view that MH should participate in an integrated*
12 *strategy with respect to low-income programs. This could, and likely would,*
13 *include a defined role in education, promotion, monitoring and perhaps delivery of*
14 *such a program in conjunction with CBOs. However, until the Board has*
15 *additional information as general and specific government funding available, the*
16 *Board is not in a position to determine whether MH should be a “funder of*
17 *programs to alleviate poverty” as suggested by RCM/TREE.”*
18

19 Based on the above discussion, Centra’s role as providing energy efficiency programming
20 through the LIEEP and FRP and crisis intervention programming through the Neighbours
21 Helping Neighbours program is appropriate. The LIEEP and FRP programs have seen 6,616
22 homes upgraded and 2,582 heating systems replaced, effectively reducing lower income
23 customers’ energy bills. The Neighbours Helping Neighbours bill assistance program has
24 provided over 4,329 grants with an average grant of \$335 and over 9,958 referrals to social
25 agencies. As noted in CAC/Centra II-76, almost 70% of the program referrals have been used
26 and the majority of grant recipients (73% or greater) have experienced improvement in their
27 arrears situation since participating in the program indicating the delivery by Salvation Army is
28 effective.
29

30 **1.10 Conclusion**

31

32 Given the difficulties associated with reaching the lower income market, Centra is confident its
33 approach towards capturing energy savings within this market sector is appropriate. The
34 Corporation has undertaken steps to improve the program’s success and plans to continue to
35 pursue initiatives and opportunities which will further improve the success of the program.
36 Since 2010/11, Centra has experienced annual market penetration of 2% or greater which is
37 consistent with other programs targeting this market sector. In addition, Centra is expecting
38 deeper penetration with the expansion of its program to include community/neighbourhood led
39 initiatives and landlord/tenant participation.