



EB-2014-0277

IN THE MATTER OF the *Ontario Energy Board Act*, 1998, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by Enbridge Gas Distribution Inc. for an order or orders approving the final balances and for clearance of certain Demand Side Management Variance Accounts into rates, within the next available QRAM following the OEB's approval.

BEFORE: Emad Elsayed
Presiding Member

Marika Hare
Member

Decision and Order
February 26, 2015

Enbridge Gas Distribution Inc. (Enbridge) filed an application with the Ontario Energy Board (OEB) dated October 2, 2014 under section 36 of the *Ontario Energy Board Act*, 1998, S.O. 1998, c.15, (Schedule B), for an order or orders approving the final balances in certain 2013 Demand Side Management (DSM) Deferral and Variance Accounts. Enbridge is also seeking the disposition of the balances in these accounts, and inclusion into rates, within the next available Quarterly Rate Adjustment Mechanism (QRAM) following the OEB's approval.

The accounts which are the subject of the application and the balances recorded are as follows:

DSM Incentive Deferral Account	\$4,538,188 (to shareholder)
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Lost Revenue Adjustment Mechanism Variance Account	(\$50,317) (to ratepayers)
DSM Variance Account	(\$3,601,806) (to ratepayers)

The net balance of the DSM Accounts is \$886,065 to be collected from ratepayers.

For the reasons set out below, the OEB approves the final balances in the 2013 DSM Deferral and Variance Accounts, as submitted. The OEB also approves the disposition of the balances in these accounts and inclusion into rates within Enbridge's next available QRAM application.

Background

The Deferral and Variance accounts for which Enbridge seeks approval and disposition in this application are related to Enbridge's 2013 DSM activities. The 2013 DSM activities were the activities for the second year of Enbridge's 2012-2014 multi-year DSM plan (EB-2011-0295) which was premised on the 2011 DSM Guidelines (EB-2008-0346).

The DSM Guidelines and Enbridge's 2012-2014 DSM plan outlined the required process Enbridge should undertake with respect to stakeholder consultation, monitoring and evaluation for each year of the plan. This included the election of an Enbridge Audit Committee (AC) and the continuation of a joint Technical Evaluation Committee (TEC) with Union Gas Limited (Union Gas).

Enbridge's DSM Consultative elected an AC for 2013 which consisted of representatives from the Green Energy Coalition, Low Income Energy Network and School Energy Coalition (SEC). The SEC representative stepped down from the AC in March 2014 and the DSM Consultative selected a member from the Federation of Rental-Housing Providers of Ontario to fill the vacancy.

With input from the TEC, Enbridge retained two engineering firms as Custom Project Savings Verification (CPSV) Contractors to evaluate its 2013 DSM program results. MMM Group Ltd. (MMM Group) was retained to review commercial custom and low-income custom projects. Genivar Inc. (Genivar) was retained to review industrial custom projects. The results of the review of custom projects by the CPSV Contractors

were included in the 2013 Draft Evaluation Report prepared by Enbridge, a report which summarized the savings achieved and the amounts spent.

Consistent with Section 15.3 of the DSM Guidelines, Enbridge is required to subject its DSM results to an independent audit. Enbridge consulted with the AC on the terms of reference and the Audit Work Plan for the audit of its 2013 DSM results and retained Optimal Energy Inc. (Optimal) who acted as the 2013 DSM Auditor. Optimal was provided with the Draft Evaluation Report and received copies of all drafts of the CPSV Contractors' reports.

The OEB's written hearing process included interrogatories and submissions. The Building Owners and Managers Association, Canadian Manufacturers and Exporters, and Energy Probe Research Foundation (Energy Probe) applied for and were granted intervenor status and cost eligibility. Submissions were received from OEB staff and Energy Probe. Enbridge filed a reply submission.

The main issues raised by OEB staff and Energy Probe were as follows:

- Free Ridership
- Base Case
- Persistence of Savings
- Cumulative Savings
- Other Issues

These are addressed in the following sections.

Free Ridership

OEB staff submitted that, during the first two years of the DSM Framework, it appears that free ridership studies were not undertaken as part of the evaluation of the program savings. OEB staff further submitted that the estimated gas savings are mechanically calculated based on free riders assumptions developed as part of the approval of Enbridge's DSM plans. OEB staff also submitted that neither of the two CSPV contractors (MMM and Genivar) nor the third party independent auditor Optimal addressed this issue during the verification and audit of the results of the commercial and industrial custom projects.

Enbridge stated that the DSM Guidelines require that "free ridership should be assessed for reasonableness prior to the implementation of the multi-year plan and

annually thereafter, as part of each natural gas utility's ongoing program evaluation and audit process". Enbridge submitted that a review of reasonableness can be undertaken without annually undertaking a formal study.

Optimal stated that a formal study can be a useful effort to better refine estimates of free ridership in the future. However, Optimal also noted that the DSM Guidelines do not provide a schedule or required date by which formal studies should be completed. Optimal opined that the current planning estimates of free ridership represented the best available information for Enbridge's program¹.

Enbridge submitted that Optimal's review and conclusions were accepted by the Enbridge AC and more broadly by the members of the DSM Consultative.

Enbridge also submitted that members of the TEC, a joint committee of intervenors, utilities and members of the public, and Enbridge specifically considered the need for a more formal evaluation of the free rider rates and initiated a formal Net to Gross study. However, this study was put on hold in July, 2014 as the TEC could not reach agreement about a particular aspect of the study. Given this and concerns about the role of the TEC under the new OEB Framework which was yet to be released and lack of certainty about what would be required under that new Framework, the TEC agreed that the Net to Gross study should be postponed.

The OEB agrees that it was not incumbent on Enbridge to undertake a free ridership study during the first few years of the multi-year DSM plan. However, a formal free ridership study is beneficial to support free ridership estimates in the future.

Since the filing of Enbridge's application and the examination of its evidence, the Report of the Board Demand Side Management Framework for Natural Gas Distributors (2015-2020)² has been issued. In that report, the Board outlines its expectations that it will be Board staff that will coordinate the evaluation process throughout the DSM Framework period on a going forward basis, and that the evaluation process will encompass free ridership rates, spillover effects, attribution of benefits and persistence of savings. Therefore, the frequency of undertaking free ridership studies should not be an issue in the evaluation of DSM program effectiveness for individual distributors in the future.

¹ Optimal Energy Memorandum, Attachment to Enbridge Reply Submission, February 5, 2015

² EB-2014-0134, December 22, 2014

Base Case

OEB staff is concerned that the base case (i.e. what would happen in the absence of the DSM program) has not been defined properly in some of the custom projects. The DSM Guidelines state that estimated savings and costs of DSM programs need to be defined relative to a frame of reference or “base case”.

Enbridge submitted that it followed a rigorous process for the review of the CPSV Contractors’ reports. Enbridge explained that members of the Enbridge AC were afforded the opportunity to review the draft CPSV contractors’ reports and to attend meetings with the contractors to review the drafts. According to Enbridge, once the final CPSV reports were issued, Optimal reviewed all project calculations and assumptions and recommended appropriate revisions as needed.

The OEB is not in a position to examine and comment on the base case assumptions on a project-by-project basis. However, the OEB finds that Enbridge followed a comprehensive process including independent review and verification to support its base case assumptions.

Persistence of Savings

OEB staff submitted that the factors that should be taken into account for persistence include the length of time the equipment is expected to be in place relative to the base case, whether the participant was planning to implement the measure on its own in the future, potential changes in the usage or shutting down of the plant in which the measure is installed, etc. OEB staff stated that these issues may not have been taken into consideration during the delivery of the Enbridge custom programs nor when the cumulative savings were calculated for the commercial and industrial custom projects.

OEB staff recommended that Enbridge, in partnership with Union Gas and appropriate stakeholders conduct a persistence study in regards to its large custom commercial and industrial programs.

OEB staff referred to Board Decision and Order (EB-2013-0352), dated May 1, 2014, in which the Board indicated that a persistence study would be useful in addressing certain issues.

Energy Probe agreed with OEB staff that a persistence study with respect to Enbridge's large custom commercial and industrial DSM savings should be completed as soon as possible.

Enbridge submitted that the May 1, 2014 Board Decision and Order was issued a little more than a month before Optimal completed its independent audit of Enbridge's 2013 DSM program results. Given the timing of these events, Enbridge submitted that the comments made by the Board in its EB-2013-0352 Decision and Order about the potential utilization of a persistence study should not be used as a measure to gauge the appropriateness of Enbridge's evaluation and verification activities in respect of 2013.

Enbridge stated that the undertaking of a formal persistence study has not been identified as a priority to date by the TEC. Cost, uncertainty about the breadth of a persistence study, and the time period over which the study should be undertaken were all important considerations in prioritizing this work, according to Enbridge. However, Enbridge stated its intention to raise the issue of a persistence study as a priority for consideration for budget allocation purposes as part of its 2015 plan, which will be filed in the near future.

The OEB agrees that a formal persistence study should be given priority as part of Enbridge's 2015 plan in order to provide support for the persistence of savings associated with large custom commercial and industrial DSM programs. As per the earlier discussion of free ridership rates in this decision, it is noted that persistence studies will also be coordinated by OEB staff according to the new DSM Framework.

Cumulative Savings

As described earlier, OEB staff expressed its concern about the mechanistic approach applied by Enbridge to calculating cumulative savings without consideration of the persistence of savings and taking into consideration the economic or the remaining useful life of the existing technologies that were retrofitted. Therefore, OEB staff believed that the cumulative gas savings reported for the commercial and industrial custom projects are overstated. To address this issue, OEB staff proposed two options for the Board's consideration:

Option 1: The Board could consider a 20% reduction in the gas savings claimed from the commercial and industrial custom projects. OEB staff pointed out that this would be similar to the last decision regarding the 2012 results (EB-2013-0352).

Option 2: The Board may want to consider the appointment of its own independent auditor to undertake an analysis and evaluation of the DSM claims with respect to custom DSM programs. OEB staff explained that the results of this audit will assist in establishing the savings for 2013 but could also serve as a guide on how these evaluations should take place for the estimation of 2014 results and the years to follow under the new DSM Framework. OEB staff pointed out that this approach would be consistent with the approach the Board plans to take under the new DSM Framework for the period 2015-2020.

Regarding Option 1, Enbridge submitted that reductions to the estimated savings have already been made³ and found to be reasonable and acceptable by the Enbridge AC. OEB staff's suggestion, according to Enbridge, amounts to double counting of the savings reductions already applied.

Optimal conducted a detailed review of OEB staff comments regarding the cumulative gas savings for the industrial and commercial custom projects being overstated and concluded that this assertion is speculative and unsupported. Optimal believes that the OEB staff's conclusion is based on many unfounded assumptions that do not rely on actual detailed data or information about customers' intentions or practices⁴.

Regarding Option 2, Enbridge submitted that this would mean setting aside the process prescribed by the DSM Guidelines which would result in duplication of effort, delay in the review and approval of the 2013 DSM results, and could cause an erosion of confidence in the stakeholder engagement process.

Enbridge further submitted that OEB staff has not concluded that any of the CPSV Contractors (MMM and Genivar) or the Auditor (Optimal) did not complete their work in an independent, thorough and professional manner. There was also no suggestion, according to Enbridge, that the Enbridge AC or TEC did not function as required.

Enbridge suggested that having OEB staff serve on the AC is an option which could be considered in the future. Enbridge submitted that this would give OEB staff the

³ Exhibit B, Tab 2, Sch. 1, p. 8

⁴ Optimal Energy Memorandum, Attachment to Enbridge Reply Submission, February 5, 2015

opportunity to provide feedback on study prioritization decisions and the reviews and verification of the DSM program results.

The OEB finds that a percentage reduction in the gas savings claimed from the commercial and industrial custom projects is unwarranted given the review and verification process that Enbridge followed in accordance with the DSM Guidelines, as well as the fact that some adjustments have already been made as a result of these independent reviews. The OEB finds that a comparison to the Board's decision in EB-2013-0352 is not valid as the evidence in this case was clear that the concerns raised in EB-2013-0352 which resulted in a disallowance were specifically addressed. The concerns raised in the prior case were specifically brought to the attention of the Auditor and identified as issues for purpose of the program review and audit. The OEB agrees with the evidence that, as a result, adjustments were already made, and a further reduction would amount to double counting.

Regarding Option 2, the OEB finds that pursuing this option, while it may be beneficial for future evaluations under the new DSM Framework, would cause an unnecessary delay in this case and is also unwarranted due to the thorough work of the Auditor in providing information on a project specific basis.

Other Issues

Residential Resource Acquisition

Energy Probe agreed with the audit findings of Enbridge's 2013 DSM results. However, Energy Probe raised some concerns that Enbridge was not becoming more efficient in its delivery of savings through the company's Residential Resource Acquisition program offering.

While Enbridge clarified that Energy Probe's concerns were related to future years and were not relevant to this proceeding, Enbridge disputed Energy Probe's conclusion and provided information which would lead to an opposite conclusion⁵.

The OEB agrees with Enbridge that the efficiency issues raised by Energy Probe are more appropriately addressed in the 2015-2020 Multi-Year Plan filing.

⁵ Enbridge Reply Submission, February 5, 2015, p. 37

Use of 80.5% Boiler Efficiency as Base Case

OEB staff submitted that its review of projects that involve a replacement of heating boilers found that the standard boiler is assumed in most cases to have an efficiency of 80.5% under the base case. OEB staff does not believe that this estimate is based on market research and that it is possible that the market has moved to higher efficiency levels. If that was the case, OEB staff submitted, the estimated savings associated with heating boiler replacements could be overstated.

OEB staff agrees with the Auditor's recommendation that the utilities conduct a baseline heating boiler study to confirm whether or not the baseline efficiency of boilers in the commercial sector has increased above the 80.5%. OEB staff suggested that the results of this study should be applied to the evaluation of the 2014 results and inform the development of the DSM plans under the new Framework.

Enbridge confirmed that the last boiler baseline study completed by Enbridge was done in 2011 and that Optimal recommended that the study be updated. According to Enbridge, the AC endorsed Enbridge's response which stated that the study would be completed in 2015.

The OEB is supportive of the proposed study in 2015, with the findings being incorporated in the evaluation of the 2014 results.

The OEB approves the final balances in the 2013 DSM Deferral and Variance Accounts, as submitted. The OEB also approves the disposition of the balances in these accounts and inclusion into rates within Enbridge's next available QRAM application.

THE BOARD ORDERS THAT:

Enbridge is granted approval to clear the amounts in its 2013 DSM Deferral and Variance accounts. A summary of the three accounts proposed for clearing and approved by the OEB are:

DSM Incentive Deferral Account	\$4,538,188 (to shareholder)
Lost Revenue Adjustment Mechanism Variance Account	(\$50,317) (to ratepayers)
DSM Variance Account	(\$3,601,806) (to ratepayers)
TOTAL	\$886,065 (to shareholder)

The clearance of the balances shall be processed within Enbridge's next available QRAM application.

Cost Awards

The Board will issue a separate decision on cost awards once the following steps are completed:

1. Intervenors shall file with the Board and forward to Enbridge their respective cost claims, if any, by March 5, 2015.
2. Enbridge shall file with the Board and forward to intervenors any objections to the claimed costs by March 16, 2015.
3. Intervenors shall file with the Board and forward to Enbridge any responses to any objections for cost claims by March 23, 2015.
4. Enbridge shall pay the Board's costs incidental to this proceeding upon receipt of the Board's invoice.

All filings to the Board must quote the file number, EB-2014-0277, and be made electronically through the Board's web portal at <https://www.pes.ontarioenergyboard.ca/eservice/>, in searchable / unrestricted PDF format. Two paper copies must also be filed at the Board's address provided below. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at <http://www.ontarioenergyboard.ca/OEB/Industry>. If the web portal is not available parties may email their documents to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two

paper copies. Those who do not have computer access are required to file 7 paper copies.

All communications should be directed to the attention of the Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date.

ADDRESS

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4
Attention: Board Secretary

E-mail: boardsec@ontarioenergyboard.ca
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Fax: 416-440-7656

DATED at Toronto, February 26, 2015

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary