

February 3, 2016

BY COURIER & RESS

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
Toronto, Ontario
M4P 1E4

RE: EB-2015-0029 – Union Gas Limited 2015-2020 DSM Plan – Written Comments

Dear Ms. Walli,

On January 20, 2016, the Ontario Energy Board (the “Board” or the “OEB”) released its Decision and Order (“Decision”) in EB-2015-0029 / EB-2015-0049, the Union Gas Limited (“Union”) and Enbridge Gas Distribution Inc. (“Enbridge”) applications for approval of their 2015-2020 Demand Side Management (“DSM”) Plans.

The Board directed Union and Enbridge to file draft DSM Cost-Efficiency Incentive Deferral Account accounting orders (the “Draft CEIDA Order”). Please see the Attachment for Union’s Draft CEIDA Order. Union notes that no provision for interest is made in the Union’s Draft CEIDA Order as the amount being recorded is intended to be spent in a future period. Enbridge and Union discussed their respective Draft CEIDA Orders and Union believes the two draft accounting orders being filed are consistent.

The Board also gave Union and Enbridge an opportunity to provide written comments related to the calculation of target metric and allocation of shareholder incentive amounts included in Schedules A, B and C. In reviewing Schedules A, B and C, Union noted certain immaterial calculation differences, but does not propose to provide further comment on those differences.

In the submission that follows, Union provides its comments on:

- Large Volume Scorecards for 2017 and 2018
- Treatment of Prospective Input Assumptions and Net-to-Gross Adjustment Factors
- Union’s Optimum Home Market Transformation Program

LARGE VOLUME SCORECARDS

The Board provided Union’s 2016 Large Volume scorecard in Section 5.5 of its Decision, page 52, however the Board did not provide Large Volume scorecards in Schedule C. Union will calculate the values for the 2017 and 2018 scorecards using the same approach as the 2016 scorecard as outlined below:

2017-2018 Large Volume Scorecards

2017 Large Volume Rate T2/Rate 100 Scorecard					
Program	Metric	Metric Target			Weight
		Lower Band	Target	Upper Band	
Large Volume Program for T2/R100 Customers	Cumulative Natural Gas Savings (m ³)	75% of Target	Three-year rolling average (2014-2016) Rate T2/Rate 100 cost effectiveness ¹ x 2017 budget without overheads	150% of Target	100%

2018 Large Volume Rate T2/Rate 100 Scorecard					
Program	Metric	Metric Target			Weight
		Lower Band	Target	Upper Band	
Large Volume Program for T2/R100 Customers	Cumulative Natural Gas Savings (m ³)	75% of Target	Three-year rolling average (2015-2017) Rate T2/Rate 100 cost effectiveness ¹ x 2018 budget without overheads	150% of Target	100%

TREATMENT OF PROSPECTIVE INPUT ASSUMPTIONS AND NET-TO-GROSS ADJUSTMENT FACTORS

The Board addressed the treatment of input assumptions and net-to-gross adjustment factors as they relate to calculating the DSM Incentive, lost revenues and calculation of the next year's targets in Section 9.5 of its Decision. While the Decision was clear in the treatment of input assumptions with regards to these aspects, Union would like to clarify the timing of new and updated input assumptions as it relates to the timing of a DSM audit.

At Section 9.5, page 74 of the Board's Decision, the Board states:

“The OEB is modifying the treatment of input assumptions and net-to-gross adjustment factors effective 2015... The OEB finds that any updates to existing input assumptions, or new input assumptions identified during a year, should be applied prospectively when evaluating savings from prescriptive measures.”

Consistent with the Board's previous EB-2006-0021 Decision², Union interprets the above to mean that input assumptions and net-to-gross adjustment factors are finalized for a given year based on the previous year's final DSM audit. By way of example, upon the completion of the 2016 audit in June 2017, the best available input assumptions and net-to-gross adjustment factors used to determine the 2016 LRAM results will be used to determine the 2017 scorecard targets and the final 2017 savings results for the purpose of determining the 2017 DSM Incentive. This process ensures that targets and achievements are based on the same set of input assumptions and net-to-gross adjustment factors.

¹ Cost-effectiveness equals the final verified metric achievement used for Lost Revenue Adjustment Mechanism Variance Account (“LRAMVA”) purposes divided by final actual program spend for that year

² EB-2006-0021 Decision with Reasons, page 11

Given that the Board's Decision is effective for 2015 and based on the process outlined above, Union's 2015 results for the purpose of determining the 2015 DSM Incentive will be based on the same input assumptions and net-to-gross adjustment factors used for setting Union's 2015 targets. These inputs were finalized in Union's 2014 DSM audit.

Lastly, for the purpose of determining Union's 2016 DSM Incentive, the 2016 results will use the same input assumptions and net-to-gross adjustment factors that were used to determine Union's 2016 targets. The input assumptions and net-to-gross adjustment factors were filed in Union's application at Exhibit A, Tab 3, Appendix D.

UNION'S OPTIMUM HOME MARKET TRANSFORMATION PROGRAM

In reviewing the Board's Decision with respect to Union's Optimum Home Market Transformation Program, Union would like to address two issues: the 2016 Optimum Home program scorecard metric and the 2017-2020 Optimum Home program scorecard metrics.

2016 Optimum Home Program Scorecard Metric

The Board approved Union's proposed 2016 scorecard, revising the lower and upper band targets to 75% of target and 150% of target respectively as outlined in the table below.

2016 Market Transformation Scorecard – Optimum Home Metric Only

Union Gas 2016 Market Transformation Scorecard					
Program	Metric	Metric Target			Weight
		Lower Band	Target	Upper Band	
Optimum Home	Homes Built (>20% above OBC 2012) by Participating Builder	75% of Target	2015 Actuals + 20%	150% of Target	50%

The target setting methodology is problematic when calculating the upper band target. Based on Union's pre-audit 2015 results, the metric upper band target will be 105%, as outlined in the table below. An upper band target of greater than 100% is not plausible given that the maximum achievement in this metric would be 100% of homes built by participating builders at greater than 20% above Ontario Building Code ("OBC") 2012 standards.

2016 Market Transformation Scorecard – Optimum Home Metric

Union Gas 2016 Market Transformation Scorecard					
Program	Metric	Metric Target			Weight
		Lower Band	Target	Upper Band	
Optimum Home	Homes Built (>20% above OBC 2012) by Participating Builder	53%	70% ³	105%	50%

Union proposes to cap the upper band metric target at 100% as this is the maximum achievement possible. Therefore, the target levels would be as follows:

³ Union's 2015 pre-audit actual for this metric is 50%

2016 Market Transformation Scorecard – Union Proposal for Optimum Home Metric

Union Gas 2016 Market Transformation Scorecard					
Program	Metric	Metric Target			Weight
		Lower Band	Target	Upper Band	
Optimum Home	Homes Built (>20% above OBC 2012) by Participating Builder	53%	70% ⁴	100%	50%

The upper band is extremely challenging at this level as it requires all of the homes built by participating builders to be built to 20% above OBC 2012.

2017-2020 Optimum Home Program Scorecard Metrics

Union did not propose to continue its Optimum Home program for 2017 and beyond due to the anticipated introduction of a new version of the OBC in 2017. Union proposed to investigate the possibility of introducing a new version of Optimum Home at the Mid-Term Review, which would reflect the fundamental re-set of the program and the increased energy efficiency requirements of the new OBC.

In Section 5.4.1 of its Decision, the Board directed Union to continue the Optimum Home program from 2017 to 2020 with an annual budget equal to that in 2016 (page 35)⁵. Union has two comments on this portion of the Board's Decision.

First, with the Board's formulaic approach to target setting for 2017 and beyond outlined in Section 9.4, the upper band targets can reach a level greater than 100% similar to the issue discussed above regarding the 2016 scorecard metric.

Second, given the expected introduction of the new OBC in 2017, a fundamental re-set of the program is necessary. Builders will require fundamental changes to their building practices to build to the new standard of 15% above OBC 2017 in comparison to the current criteria of 20% above OBC 2012. As a result of the new OBC and a re-set of the program, the Optimum Home scorecard metric cannot simply be extended based on the previous year's results.

Union proposes to adopt a similar approach to its previous Optimum Home program in the design of its 2017-2020 program. Union has built on the lessons learned from the previous Optimum Home program and has designed a new phase of the Optimum Home program that will support builders while accelerating the program outcomes. Union's proposed 2017-2020 scorecards are based on the previously approved 2012-2015 scorecards, but are more aggressive in that program outcomes are accelerated in comparison to the previous program. For example, Union will require prototype homes to be built in the first year of the program, which previously began in year two. Also, Union proposes to introduce the Homes Built metric in the second year, which previously was not introduced until the third year of the program. Lastly, Union's

⁴ Union's 2015 pre-audit actual for this metric is 50%

⁵ At page 36, the Board also stated that Union should target improvements of 15% above the new standards, consistent with Enbridge's program target

proposed target levels are based on the actual achievements of the 2012-2014 Optimum Home program. Union's proposed 2017-2020 scorecards are outlined in the tables below.

2017-2020 Market Transformation – Optimum Home Metric Proposal

Union Gas 2017 Market Transformation Scorecard						2012 OH Actual
Program	Metric	Metric Target			Weight	
		Lower Band	Target	Upper Band		
Optimum Home	Participating Builders (Regional Top 10) ⁶	75% of Target	10	150% of Target	20%	11
	Prototype Homes Built ⁷	25%	30%	40%	30%	Not on scorecard

Union Gas 2018 Market Transformation Scorecard						2013 OH Actual
Program	Metric	Metric Target			Weight	
		Lower Band	Target	Upper Band		
Optimum Home	Participating Builders (Regional Top 10) ⁸	75% of Target	8	150% of Target	10%	8
	Prototype Homes Built ⁷	55%	60%	70%	30%	63%
	Homes Built (>15% above OBC 2017) by Participating Builders ⁹	75% of Target	5%	150% of Target	10%	Not on scorecard

Union Gas 2019 Market Transformation Scorecard						2014 OH Actual
Program	Metric	Metric Target			Weight	
		Lower Band	Target	Upper Band		
Optimum Home	Participating Builders (Regional Top 10) ¹⁰	75% of Target	4	150% of Target	10%	3
	Prototype Homes Built ⁷	85%	90%	100%	10%	86%
	Homes Built (>15% above OBC 2017) by Participating Builders ⁹	2018 metric achievement / 2018 actual program spend without overheads x 2019 program budget without overheads +7.5%	2018 metric achievement / 2018 actual program spend without overheads x 2019 program budget without overheads +10%	2018 metric achievement / 2018 actual program spend without overheads x 2019 program budget without overheads +15%	30%	14%

⁶ Builders enrolled from 2017 onwards for the 15% greater than OBC 2017 program cycle. Eligible builders are the top 10 builders in each region based on number of housing starts in Union's franchise area in the prior calendar year. The seven regions are: Halton, Hamilton, London, Waterloo, Windsor, Kingston and North.

⁷ Percentage of participating builders who construct a prototype home 15% greater than OBC 2017 based on the total number of builders who remain enrolled in the program.

⁸ Incremental builders enrolled from 2018 onwards for the 15% greater than OBC 2017 program cycle. Eligible builders are the top 10 builders in each region based on number of housing starts in Union's franchise area in prior calendar year. The seven regions are: Halton, Hamilton, London, Waterloo, Windsor, Kingston and North.

⁹ Calculated as the percentage of homes built to a 15% higher energy efficiency standard than OBC 2017 in relation to the total number of homes built in a program year by actual participating builders who remain enrolled in the Program. The percentage at the lower band represents 75% of the percent increase at target, and at Upper band 150% of the percentage increase at target.

¹⁰ Incremental builders enrolled from 2019 onwards for the 15% greater than OBC 2017 program cycle. Eligible builders are the top 10 builders in each region based on number of housing starts in Union's franchise area in prior calendar year. The seven regions are: Halton, Hamilton, London, Waterloo, Windsor, Kingston and North.

Union Gas 2020 Market Transformation Scorecard						2015 OH Actual (Pre-Audit)
Program	Metric	Metric Target			Weight	
		Lower Band	Target	Upper Band		
Optimum Home	Homes Built (>15% above OBC 2017) by Participating Builders ⁹	2019 metric achievement / 2019 actual program spend without overheads x 2020 program budget without overheads +22.5%	2019 metric achievement / 2019 actual program spend without overheads x 2020 program budget without overheads +30%	2019 metric achievement / 2019 actual program spend without overheads x 2020 program budget without overheads +45%	50%	50%

If you have any questions with respect to this submission please contact me at 519-436-5334.

Yours truly,

[original signed by]

Vanessa Innis
 Manager, Regulatory Initiatives

cc: Valerie Bennett, Board Staff
 Alex Smith, Torys
 All Intervenors (EB-2015-0029)

Encl.

UNION GAS LIMITED

**Accounting Entries for
Demand Side Management Cost-Efficiency Incentive
Deferral Account No. 179-150**

Account numbers are from the Uniform System of Accounts for Gas Utilities, Class A prescribed under the Ontario Energy Board Act.

Debit - Account No. 728
 General Expense

Credit - Account No. 179-150
 Other Deferred Charges – Demand Side Management Cost-Efficiency Incentive

To record, as a credit in Deferral Account No. 179-150, the differences between the gas utilities' annual approved DSM budgets and the actual amount spent to achieve the total aggregate annual lifetime savings (CCM) targets made up of all 100% CCM targets across all programs, in accordance with annual program evaluation results.