



Ontario Energy Board Commission de l'énergie de l'Ontario

DECISION AND ORDER

EB-2017-0323

UNION GAS LIMITED

Application for approval of shareholder incentives, lost revenues, and program expenditures related to 2015 demand side management programs.

BEFORE: Susan Frank
Presiding Member

Christine Long
Vice Chair

Rumina Velshi
Member

July 12, 2018

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1 INTRODUCTION AND SUMMARY

Union Gas Limited (Union Gas) requested the Ontario Energy Board (OEB) approve the recovery of amounts related to its 2015 natural gas Demand Side Management (DSM) conservation programs. Union Gas has requested approval of the following:

- \$7.472M to be recovered from rate payers for its shareholder incentive earned for meeting its 2015 targets.
- \$617,477 to be recovered from rate payers for lost revenues due to a decrease in gas usage as a result of 2015 DSM programs, and
- \$195,234 to be refunded to rate payers for program funds which were recovered in rates but not incurred during 2015.

The OEB's January 20, 2016 DSM Decision in EB-2015-0029 / 0049 provides the context for the review of the 2015 DSM Deferral and Variance accounts.

Union Gas based its application for the most part on the Final 2015 Annual Verification Report¹ prepared for the OEB by the OEB's Evaluation Contractor, consulting firm DNV GL. However, for calculating the shareholder incentive and lost revenue amounts, Union Gas has used the historical free ridership values for its custom commercial and industrial DSM programs, rather than the values in the 2015 Annual Verification Report. The historical free ridership values were last approved as part of Union Gas' 2014 DSM deferral and variance account application.

The OEB approves Union Gas' requested DSM shareholder incentive account balance of \$7.472M as requested. The 2015-2020 DSM Framework indicated that the 2015 program year would be a transition to the new multi-year DSM plans, including all programs and parameters, such as budgets, targets, and incentive structure.² The 2015 transition year characterization was also confirmed in the 2015-2020 DSM Decision.³

The OEB approves the disposition of the lost revenues account to be collected from rate payers in the revised amount of \$601,968. The approved lost revenue amount has been calculated using the verified 2015 natural gas savings, free ridership values, and spillover value from the 2015 Annual Verification Report. The 2015-2020 DSM

¹ 2015 Natural Gas Demand Side Management Annual Verification Report and Custom Savings Verification and Free Ridership Evaluation

² Report of the Board, DSM Framework for Natural Gas Distributors (2015-2020), Section 15.1, Page 37

³ EB-2015-0029 / EB-2015-0049, Decision and Order, January 20, 2016, Section 8.1, Pages 56-57

Decision indicated that in order to provide the best indication of the actual effects of the programs, lost revenues should be calculated using the best information that are the result of the annual evaluation process.⁴

The OEB also approves the requested DSMVA refund of \$195,234 to rate payers. The request is consistent with the OEB's DSM Framework. Approved DSM funding that was not spent must be returned to rate payers.

⁴ EB-2015-0029 / EB-2015-0049, Decision and Order, Section 9.5, Page 75

2 BACKGROUND

Union Gas filed an application with the OEB to recover through rates: a shareholder incentive, lost revenues, and DSM program costs related to Union Gas' 2015 DSM activities. Under the *Ontario Energy Board Act, 1998* (the OEB Act), natural gas distributors must apply to the OEB to change the rates they charge customers.

Union Gas is a natural gas storage, transmission and distribution company based in Ontario. Union Gas serves approximately 1.4 million customers in more than 400 communities across northern, southwestern and eastern Ontario.

The OEB issued the 2015 to 2020 DSM Framework on December 22, 2014.⁵ The 2015-2020 DSM Framework provided guidance to the distributors on the key areas the OEB expected to see included within new multi-year DSM plans, including guidance related to the evaluation of annual DSM program results.

In response to the OEB's 2015-2020 DSM Framework, Union Gas filed an application for the OEB to approve its six-year DSM plan.⁶ On January 20, 2016, the OEB issued its Decision and Order on Union Gas' 2015-2020 DSM Plan (the 2015-2020 DSM Decision). The OEB approved natural gas DSM programs for residential, commercial, and industrial customers.

Union Gas has based its application for 2015 DSM program results for the most part on the Final 2015 Annual Verification Report prepared by the OEB's Evaluation Contractor. However, for calculating the shareholder incentive and lost revenue amounts, Union Gas used the historical free ridership values for its custom commercial and industrial DSM programs, rather than the values in the 2015 Annual Verification Report. The historical free ridership values were last approved as part of Union Gas' 2014 DSM deferral and variance account application.

⁵ Report of the Board: Demand Side Management Framework for Natural Gas Distributors (2015-2020), EB-2014-0134, December 22, 2014

⁶ EB-2015-0029

3 PROCESS

Union Gas filed its application with the OEB on December 18, 2017 seeking approval and clearance of its 2015 DSM deferral and variance accounts. Union Gas filed its application in accordance with the OEB's 2015-2020 DSM Framework and Filing Guidelines, and the 2015-2020 DSM Decision.

On February 2, 2018 the OEB issued a Notice of Hearing (Notice) to review Union Gas' application.

On February 26, 2018 the OEB issued Procedural Order No. 1. Within Procedural Order No. 1 the OEB set out the process for interrogatories and granted intervenor status and cost eligibility to the following parties:

- Building Owners and Managers Association, Greater Toronto (BOMA)
- Canadian Manufacturers and Exporters (CME)
- Energy Probe Research Foundation (EP)
- Green Energy Coalition (GEC)
- Industrial Gas Users Association (IGUA)
- London Property Management Association (LPMA)
- Ontario Greenhouse Vegetable Growers (OGVG)
- Ontario Sustainable Energy Association (OSEA)
- Rover Pipeline LLC (Rover)
- School Energy Coalition (SEC)

All of the above parties except Rover requested and were approved for cost eligibility.

On March 9, 2018 parties filed written interrogatories on Union Gas' application. Union Gas filed responses on April 6, 2018.

Union Gas and many intervenors expressed concerns with the OEB's annual evaluation process. On April 10, 2018 the OEB issued Procedural Order No. 2 which indicated that the OEB's evaluation policy or its implementation was not within the scope for as part of this proceeding. Further, the OEB indicated it would proceed with its review of the application by way of a written hearing.

On April 20, 2018 Union Gas filed its argument-in-chief.

On April 27, 2018 intervenors and OEB staff filed written submissions.

On May 7, 2018 Union Gas filed its written reply submission.

4 DECISION

The OEB approves Union Gas' requested DSM deferral and variance accounts, with changes only to the Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) balance. The lost revenue is to be calculated using all information included in the 2015 Annual Verification Report. Using the best information available from the annual evaluation provides the best estimate of actual lost revenues, and is consistent with the 2015-2020 DSM Decision.⁷

4.1 Shareholder Incentive - DSM Incentive Deferral Account (DSMIDA)

Union Gas requested approval of its 2015 shareholder incentive amount of \$7.472M to be recovered from rate payers. Union Gas was able to earn a shareholder incentive based on how well it performed on its 2015 program targets that were approved by the OEB.⁸ The shareholder incentive is tracked within the DSM Incentive Deferral Account (DSMIDA).

Union Gas argued that it was not appropriate to use the free ridership and spillover values from the 2015 program evaluation as doing so would: 1) be inconsistent with the OEB's prior decisions; 2) create a misalignment between 2015 input assumptions used to develop program targets and results; 3) be inconsistent with the scope of the net-to-gross study request for proposal; and, 4) inappropriately apply a deemed spillover value and fail to apply secondary attribution.

Union Gas submitted that 2015 was meant to be a transition year where all program parameters, including those related to the shareholder incentive, were carried forward from 2014.

BOMA, IGUA and OSEA supported Union Gas' requested DSMIDA amount.

IGUA requested that the OEB only decide on the sub-issues, such as spillover and secondary attribution, as part of the OEB's DSM Mid-Term Review where such elements could be considered more comprehensively, and not as part of its review of this application.

OEB staff, EP, LPMA, OGVG, and SEC objected to Union Gas' requested DSMIDA amount. These parties argued that the OEB's 2015-2020 DSM Decision clearly directed

⁷ EB-2015-0029 / EB-2015-0049, Decision and Order, Section 9.5, Page 75

⁸ 2015 Annual Verification Report, Table 3-14, Page 23

that the most recent program evaluation, the 2015 evaluation, should be used to derive custom program results.

Findings

The OEB approves Union Gas' 2015 shareholder incentive amount as filed. Union Gas' request to use its historical free ridership values for custom commercial and industrial programs is appropriate due to 2015 being a transition year into the new multi-year DSM framework.

Following the 2015-2020 DSM Decision, Union Gas Limited requested that the OEB clarify various components of the 2015-2020 DSM Decision that would apply to both Union Gas and Enbridge Gas. Union Gas submitted that it interpreted the OEB's 2015-2020 DSM Decision to mean that input assumptions and net-to-gross adjustment factors are finalized based on the previous year's audit. As a result, Union Gas submitted that the 2015 shareholder incentive claim should be based on the input assumptions and net-to-gross factors finalized in Union Gas' 2014 DSM audit.⁹ On February 24, 2016 the OEB issued a revised decision on the 2015-2020 DSM Plans confirming Union Gas' interpretation.

Several parties argued that the manner to calculate program results for prescriptive and custom programs should be treated differently. Prescriptive programs are to use the net-to-gross values, namely free ridership and spillover values that are known at the start of the program year to calculate the program results. However, for custom programs, the result of the most recent program evaluation, including all updates to net-to-gross values, are to be used to derive custom program results. LPMA and SEC emphasized the benefits of using measured results versus historical assumptions to assess DSM achievements and indicated that prior OEB decisions supported this approach for custom projects. The OEB agrees with this interpretation of the OEB's 2015-2020 DSM Decision for future years but not for 2015.

The 2015-2020 DSM Framework provided the context for how the 2015 program year would be treated. Union Gas' 2015 programs were already in place when the OEB issued the 2015-2020 DSM Framework on December 22, 2014. The OEB instructed Union Gas to roll-forward its 2014 DSM plan, including all programs and parameters (i.e., budgets, targets, incentive structure) into 2015. This allowed program continuity and ensured customers would continue to have opportunities to participate in the conservation programs. The 2015 program year was completed prior to the 2015-2020 DSM Decision being issued. While the measured free ridership values for 2015

⁹ EB-2015-0029/EB-2015-0049, Union comments submitted February 3, 2016, Pages 2-3

according to the 2015 Annual Verification Report were considerably higher than the historical 2008 values, the OEB assessed fairness in this decision to be best served by maintaining consistency and predictability based on the 2015-2020 DSM Decision.

The use of free ridership values and spillover values, developed as part of the 2015 evaluation process, on 2016 program results is outside the scope of this proceeding. In the 2015-2020 DSM Decision, the OEB indicated that “in 2016, the free rider rates would be updated based on the results of the net-to-gross study and annual evaluation process.”¹⁰ This decision on the 2015 DSM deferral and variance accounts should not be construed as prejudging the treatment of applying the updated free ridership and spillover values to 2016 custom DSM programs.

4.2 Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)

Union Gas requested approval of its LRAMVA in the total amount of \$617,477 to be recovered from rate payers. The LRAMVA amount includes new lost revenues from programs delivered in 2015, as well as unclaimed lost revenues from programs delivered in 2014. Similar to its shareholder incentive, Union Gas calculated the 2015 LRAMVA balance using only the verified 2015 natural gas savings from the OEB’s 2015 Annual Verification Report. Union Gas did not include the free ridership values and spillover value from the 2015 Annual Verification Report.

Findings

The OEB approves Union Gas’ 2015 LRAMVA balance in the total amount of \$601,968 to be recovered from rate payers. The approved LRAMVA amount differs from Union Gas’ request. The revised 2015 LRAMVA amount includes lost revenue amounts from 2015 and 2014 that have not yet been recovered by Union Gas. The OEB revised 2015 lost revenue amounts to reflect verified 2015 natural gas savings that include free ridership and spillover values from the 2015 Annual Verification Report. Because there was no study of 2014 free ridership and spillover values, the OEB did not revise the 2014 lost revenue amounts requested.

The 2015-2020 DSM Decision provided the following direction related to the LRAMVA calculation:

“To calculate lost revenues, the OEB directs the utilities to use the final natural gas savings amounts calculated from the use of the best available information that are the result of the annual evaluation process.”¹¹

¹⁰ EB-2015-0029 / EB-2015-0049, Decision and Order, Section 5.2.6, Page 21

¹¹ EB-2015-0029 / EB-2015-0049, Decision and Order, Page 75

Calculating the LRAMVA using the best available information from the annual evaluation compensates Union Gas for the actual lost revenues from its DSM programs. The manner to calculate the LRAMVA amount has remained consistent with the prior OEB policy related to lost revenues.

2015 Lost Revenues

The Evaluation Contractor calculated Union Gas' 2015 lost revenue to be \$154,368.¹² The lost revenues were calculated by the Evaluation Contractor using the verified 2015 natural gas savings, free ridership values, and spillover value developed during the 2015 evaluation process. Using the information from the 2015 evaluation provides the best estimate of actual lost revenues from the 2015 DSM programs.

2014 Lost Revenues

Union Gas does not include DSM savings in its load forecast. Therefore, Union Gas cannot include a forecast of lost revenue amounts in the LRAMVA calculation. For 2015, similar to the manner approved by the OEB in past DSM deferral and variance account applications,¹³ Union Gas has requested recovery of its prior year lost revenues; \$447,600 from 2014¹⁴, as part of its current 2015 application. Union Gas did not include any of its 2014 lost revenues in its 2015 distribution rates.¹⁵

2015 LRAMVA

Therefore, as noted above, the OEB approves a final 2015 LRAMVA amount of \$601,968. This amount reflects the total of the final 2015 lost revenues included within the 2015 Annual Verification Report and the final 2014 lost revenues.

4.3 Demand Side Management Variance Account (DSMVA)

Union Gas requested the disposition of its 2015 DSMVA in a total amount of \$195,234 to be refunded to rate payers.¹⁶ This amount captures the total spending difference between the DSM budget built into rates and the actual 2015 DSM spending.

¹² 2015 Annual Verification Report, Page 3, Table 1-3, Union LRAM Results

¹³ EB-2015-0276

¹⁴ Exhibit A, Tab 3, Appendix A, Schedule 2, Page 2

¹⁵ Exhibit A, Tab 3, Pages 2-4

¹⁶ Exhibit A, Tab 3, Page 5-8

Findings

The OEB approves the requested DSMVA account balance as a refund to rate payers. Union Gas has followed the OEB's guidance from the 2015-2020 DSM Framework.

4.4 DSM Evaluation Process

The 2015 program year was the first of the OEB-led annual DSM evaluation process. In Procedural Order No. 2, the OEB indicated that the review of the evaluation process was outside the scope of this proceeding.

5 IMPLEMENTATION

Union Gas requested that the amounts be cleared within the next available QRAM following the OEB's decision. Union Gas proposed to dispose for the deferral and variance account balances over a six-month period for general service Rate M1, Rate M2, Rate 01, and Rate 10 customers. Union Gas proposed to dispose of approved balances for in-franchise contract rate classes through a one-time adjustment to rates.

The allocation and disposition methodologies proposed by Union Gas are the same as those approved by the OEB in Union Gas' 2014 DSM clearance of DSM deferral and variance accounts application.¹⁷ Union Gas stated that the proposed allocation methodology is appropriate as 2015 is meant to act as a transition year. The allocation methodology is summarized as follows:¹⁸

- **DSMIDA** – amounts are allocated to rate classes in proportion to the actual DSM spending by rate class in 2015 for scorecards where Union has achieved a DSM Incentive.
- **LRAMVA** – amounts are allocated to contract rate classes in proportion to the margin reduction attributable to DSM activities.
- **DSMVA** – amounts are allocated to rate classes in proportion to the variance between budgeted and actual DSM spending by rate class in 2015, with the exception of low-income spending which is allocated in proportion to the most recent OEB-approved distribution revenue by rate class.

Findings

The OEB approves the allocation of the 2015 DSM deferral and variance account balances by rate class as shown in the table below. The only change to Union Gas' proposed allocation is related to the LRAMVA balance.

The allocation of DSM deferral and variance account balances is consistent with the treatment in prior years. The OEB also approves the disposition of the account balances as requested by Union Gas.

¹⁷ EB-2015-0276

¹⁸ EB-2017-0323, Exhibit A, Tab 4, Pages 2-4

Table 2 – Union Gas' DSM Deferral and Variance Account Allocation

Rate Class		DSMIDA (\$)	LRAMVA (\$)	DSMVA (\$)	Total (\$)
Union North	Rate 01	775,326	-	(1,063,440)	(288,114)
	Rate 10	179,065	-	(447,885)	(268,820)
	Rate 20	159,824	44,900	(165,148)	39,576
	Rate 100	-	59,082	(1,055,159)	(996,077)
	Rate 25	-	-	-	-
Union South	M1	3,565,990	-	2,423,087	5,989,077
	M2	1,230,083	-	(284,161)	945,922
	M4	694,078	178,227	1,221,531	2,093,836
	M5	236,532	252,096	(1,615,608)	(1,126,980)
	M7	631,583	59,503	1,773,489	2,464,575
	M9	-	-	-	-
	M10	-	-	-	-
	T1	-	4,562	(967,648)	(963,086)
	T2	-	3,598	(14,290)	(10,692)
	T3	-	-	-	-
TOTAL		\$7,472,481	\$601,968	(\$195,234)	\$7,879,215

* Note: Numbers may not add up due to rounding

6 ORDER

THE BOARD ORDERS THAT:

1. Union Gas Limited DSM deferral and variance account balances are approved as indicated in the Decision above.
2. Union Gas Limited shall allocate the approved DSM deferral and variance account balances to the various customer rate classes pursuant to this Decision and Order.
3. Union Gas Limited shall file a Draft Rate Order consistent with this Decision showing all unit rates for each rate class. The draft Rate Order must be filed by **July 26, 2018**.
4. OEB staff may file comments on the Draft Rate Order by **August 3, 2018** and copy Union Gas Limited.
5. The allocated amounts to general service Rate M1, Rate M2, Rate 01, and Rate 10 customers shall be recovered over a six-month period beginning with Union Gas Limited's October 1, 2018 QRAM application.
6. The allocated amounts to in-franchise contract rate classes shall be recovered through a one-time adjustment to rates in Union Gas Limited's October 1, 2018 QRAM application.
7. Intervenors shall file with the OEB, and forward to Union Gas Limited, their respective cost claims by **July 26, 2018**.
8. Union Gas Limited shall file with the OEB, and forward to intervenors, any objections to the claimed costs by **August 2, 2018**.
9. Intervenors shall file with the OEB, and forward to Union Gas Limited, any responses to any objections for cost claims by **August 9, 2018**.
10. Union Gas Limited shall pay the OEB's costs incidental to this proceeding upon receipt of the OEB's invoice.

DATED at Toronto July 12, 2018

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary