



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

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## DECISION AND ORDER

EB-2017-0324

### ENBRIDGE GAS DISTRIBUTION INC.

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

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July 12, 2018

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# 1 INTRODUCTION AND SUMMARY

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

- \$10.077M to be recovered from rate payers for its shareholder incentive. Enbridge Gas has earned the shareholder incentive for meeting and surpassing its 2015 targets.
- \$72,589 to be refunded to rate payers for lost revenues that were not realized in 2015 but have already been collected through distribution rates.
- \$825,460 to be recovered from rate payers for additional 2015 DSM program funds incurred by Enbridge Gas.

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.

Enbridge Gas based its application for the most part on the Final 2015 Annual Verification Report<sup>1</sup> prepared for the OEB by the OEB's Evaluation Contractor, consulting firm DNV GL. However, for calculating the shareholder incentive and lost revenue amounts, Enbridge 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 Enbridge Gas' 2014 DSM deferral and variance account application.

The OEB approves Enbridge Gas' requested DSM shareholder incentive account balance of \$10.077M 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.<sup>2</sup> The 2015 transition year characterization was also confirmed in the 2015-2020 DSM Decision.<sup>3</sup>

The OEB approves the disposition of the lost revenues account as a refund to rate payers in the revised amount of \$84,399. The approved lost revenue amount has been calculated using the verified 2015 natural gas savings, free ridership values, and

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

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

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

spillover value from the 2015 Annual Verification Report. The 2015-2020 DSM 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.<sup>4</sup>

The OEB also approves the requested DSMVA amount of \$825,460 as the additional spending is consistent with the OEB's DSM Framework.

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

## 2 BACKGROUND

Enbridge Gas filed an application with the OEB to recover through rates: a shareholder incentive, lost revenues, and DSM program costs related to Enbridge 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.

Enbridge Gas is a natural gas storage, transmission and distribution company based in Ontario. Enbridge Gas serves approximately 2 million customers in more than 100 communities in central, eastern and the Niagara regions of Ontario.

The OEB issued the 2015 to 2020 DSM Framework on December 22, 2014.<sup>5</sup> 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, Enbridge Gas filed an application for the OEB to approve its six-year DSM plan.<sup>6</sup> On January 20, 2016, the OEB issued its Decision and Order on Enbridge Gas' 2015-2020 DSM Plan (the 2015-2020 DSM Decision). The OEB approved natural gas DSM programs for residential, commercial, and industrial customers.

Enbridge 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, Enbridge 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 Enbridge Gas' 2014 DSM deferral and variance account application.

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

<sup>6</sup> EB-2015-0049

### 3 PROCESS

Enbridge Gas filed its application with the OEB on December 19, 2017 seeking approval and clearance of its 2015 DSM deferral and variance accounts. Enbridge 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 Enbridge 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)
- Energy Probe Research Foundation (EP)
- Green Energy Coalition (GEC)
- Industrial Gas Users Association (IGUA)
- Ontario Sustainable Energy Association (OSEA)
- School Energy Coalition (SEC)

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

Enbridge 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 DSM evaluation policy or its implementation was not within the scope for 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 Enbridge Gas filed its argument-in-chief.

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

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

## 4 DECISION

The OEB approves Enbridge 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.<sup>7</sup>

### 4.1 Shareholder Incentive - DSM Incentive Deferral Account (DSMIDA)

Enbridge Gas requested approval of its 2015 shareholder incentive amount of \$10.077M to be recovered from rate payers. Enbridge 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.<sup>8</sup> The shareholder incentive is tracked within the DSM Incentive Deferral Account (DSMIDA).

Enbridge Gas has calculated the shareholder incentive and lost revenue amounts using the historical free ridership values for its custom commercial and industrial DSM programs. The historical free ridership values were last approved as part of Enbridge Gas' 2014 DSM deferral and variance account application.

Enbridge Gas argued that it was not appropriate to use the free ridership values and spillover value from the 2015 Annual Verification Report for two main reasons: 1) doing so would be inconsistent with the OEB's position regarding the 2015 program year and the 2015-2020 DSM Decision; 2) Enbridge Gas has specific concerns with the manner in which the free ridership values and spillover value were determined.

Enbridge 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 Enbridge 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.

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

<sup>8</sup> 2015 Annual Verification Report, Table 4-12, Page 34

OEB staff, EP and SEC objected to Enbridge Gas' requested DSMIDA amount. These parties argued that the OEB's 2015-2020 DSM Decision clearly directed that the most recent program evaluation, the 2015 evaluation, should be used to derive custom program results.

## Findings

The OEB approves Enbridge Gas' 2015 shareholder incentive amount as filed. Enbridge 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.<sup>9</sup> 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. Enbridge Gas' 2015 programs were already in place when the OEB issued the 2015-2020 DSM Framework on December 22, 2014. The OEB instructed Enbridge 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

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



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 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.”<sup>10</sup> 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)**

Enbridge Gas requested approval of its LRAMVA in the total amount of \$72,589 to be refunded to rate payers. Similar to its shareholder incentive, Enbridge Gas calculated the LRAMVA balance using only the verified 2015 natural gas savings from the OEB’s 2015 Annual Verification Report. Enbridge Gas did not include the free ridership values and spillover value from the 2015 Annual Verification Report.

OEB staff requested Enbridge Gas confirm its LRAMVA calculations in its reply submission. Enbridge Gas responded and submitted that the originally requested LRAMVA amount should be approved as filed.

#### **Findings**

The OEB approves Enbridge Gas’ 2015 LRAMVA balance as a refund to rate payers in the total amount of \$84,399. The approved LRAMVA amount differs from Enbridge Gas’ request. The revised LRAMVA amount incorporates the verified 2015 natural gas savings, as well as the free ridership values and spillover value from the 2015 Annual Verification Report.

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

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

“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.”<sup>11</sup>

Calculating the LRAMVA using the best available information from the annual evaluation compensates Enbridge 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.

The Evaluation Contractor calculated Enbridge Gas' 2015 lost revenue to be \$16,405.<sup>12</sup> 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.

Enbridge Gas' forecast DSM savings were greater than its actual DSM savings in 2015. Therefore, Enbridge Gas' LRAMVA is a refund to rate payers. The OEB has recalculated the LRAMVA amount to be \$84,399. This calculation is shown in Appendix A and incorporates all results from the 2015 Annual Verification Report.

#### **4.3 Demand Side Management Variance Account (DSMVA)**

Enbridge Gas requested approval of its 2015 DSMVA in a total amount of \$825,460 to be recovered from rate payers.<sup>13</sup> This amount captures the total spending difference between the DSM budget built into rates and the actual 2015 DSM spending.

#### **Findings**

The OEB approves the requested DSMVA account balance. Enbridge Gas has followed the OEB's guidance from the 2015-2020 DSM Framework. Section 15.1 of the 2015-2020 DSM Framework allowed the gas utilities to increase overall spending by up to 15% to incorporate the guiding principles and key priorities.

#### **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.

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

<sup>12</sup> 2015 Annual Verification Report, Page 4, Table 1-8, Enbridge LRAM Results

<sup>13</sup> Exhibit B, Tab 1, Schedule 1, Pages 112-113

## 5 IMPLEMENTATION

Enbridge Gas requested that the amounts be cleared within the next available QRAM following the OEB's decision. Enbridge Gas proposed to clear the DSM deferral and variance account balances through a one-time adjustment to rates.

The allocation and disposition methodologies proposed by Enbridge Gas are the same as those approved by the OEB in Enbridge Gas' 2014 DSM deferral and variance accounts application.<sup>14</sup> Enbridge Gas stated that the proposed allocation methodology is appropriate as 2015 is meant to act as a transition year. The allocation methodology is summarized below:<sup>15</sup>

- **DSMIDA** – DSM shareholder incentive amounts are allocated to the rate classes in proportion to the amount actually spent on each rate class.
- **LRAMVA** – the LRAM amount is recovered in rates on the same basis as the lost revenues were experienced so that LRAM ends up being a true-up by rate class.
- **DSMVA** – the actual DSM spending variance amount is allocated the customer class the budget spending relates to.

### 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 Enbridge Gas' proposed allocation is related to the LRAMVA balance that the OEB has recalculated based on the findings above.

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 a one-time adjustment in the next available QRAM following the OEB's decision.

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<sup>14</sup> EB-2015-0267

<sup>15</sup> EB-2017-0324, Exhibit B, Tab 2, Schedule 1, Page 1-2

Table 2 – Enbridge Gas DSM Deferral and Variance Account Allocation

Rate Class	DSMIDA (\$)	LRAMVA (\$)	DSMVA (\$)	Total (\$)
Rate 1	5,901,877	n/a	6,498,202	11,444,957
Rate 6	3,438,499	n/a	(2,919,026)	(929,080)
Rate 9	404	0	(74)	233
Rate 110	421,703	(19,058)	191,445	(97,718)
Rate 115	146,222	(7,814)	(451,019)	(387,988)
Rate 125	15,156	0	(2,779)	8,742
Rate 135	12,883	239	(144,351)	(63,044)
Rate 145	41,385	(36,093)	(1,040,849)	(916,534)
Rate 170	93,350	(21,673)	(1,304,940)	(1,147,835)
Rate 200	5,254	0	(963)	3,031
Rate 300	1,010	0	(186)	582
<b>Total</b>	<b>\$10,077,695</b>	<b>(\$84,399)</b>	<b>\$825,460</b>	<b>\$10,818,756</b>

\* Note: Numbers may not add up due to rounding

## 6 ORDER

### THE BOARD ORDERS THAT:

1. Enbridge Gas Distribution Inc.'s DSM deferral and variance account balances are approved as indicated in the Decision above.
2. Enbridge Gas Distribution Inc. shall allocate the approved DSM deferral and variance account balances to the various customer rate classes pursuant to this Decision and Order.
3. Enbridge Gas Distribution Inc. 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 Enbridge Gas Distribution Inc.
5. The allocated amounts shall be recovered as a one-time adjustment to rates in Enbridge Gas Distribution Inc.'s October 1, 2018 QRAM application.
6. Intervenors shall file with the OEB, and forward to Enbridge Gas Distribution Inc., their respective cost claims by **July 26, 2018**.
7. Enbridge Gas Distribution Inc. shall file with the OEB, and forward to intervenors, any objections to the claimed costs by **August 2, 2018**.
8. Intervenors shall file with the OEB, and forward to Enbridge Gas Distribution Inc., any responses to any objections for cost claims by **August 9, 2018**.
9. Enbridge Gas Distribution Inc. 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

## Appendix A

### Enbridge Gas Distribution Inc.

#### 2015 Demand Side Management Deferral and Variance Accounts

**EB-2017-0324**

Revised Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) calculation

	A	B	C	D (B / C)*100	E (D – A)	F (C * E)/100
Rate Class	Budget Net Partially Effective Volume (m <sup>3</sup> ) <sup>16</sup>	Revised LRAM (\$) <sup>17</sup>	Distribution Margin (cents/m <sup>3</sup> ) <sup>18</sup>	Revised Actual Net Partially Effective Volume (m <sup>3</sup> )	Revised Volume Variance (m <sup>3</sup> )	Revised LRAM Allocation (\$)
<b>Rate 110</b>	2,065,678	\$11,769	1.4924	788,618	(1,277,060)	\$(19,058)
<b>Rate 115</b>	1,314,523	\$2,932	0.8174	358,678	(955,845)	\$(7,814)
<b>Rate 135</b>	0	\$239	1.2825	18,636	18,636	\$239
<b>Rate 145</b>	2,428,288	\$876	1.5224	57,539	(2,370,749)	\$(36,093)
<b>Rate 170</b>	4,942,907	\$590	0.4504	130,993	(4,811,914)	\$(21,673)
<b>TOTAL</b>	<b>10,751,396</b>	<b>\$16,406</b>		<b>1,354,464</b>	<b>(9,396,933)</b>	<b>\$(84,399)</b>

Note: Amounts may not add up due to rounding

<sup>16</sup> EB-2017-0324, Exhibit B, Tab 1, Schedule 1, Page 104 of 117, Table 8.0

<sup>17</sup> 2015 Natural Gas Demand Side Management Annual Verification Report, Page 4, Table 1-8

<sup>18</sup> EB-2017-0324, Exhibit B, Tab 1, Schedule 1, Page 104 of 117, Table 8.0