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10 August 2009

Ms. Kirsten Walli, Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON
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Dear Ms Walli:

Re: EB-2009-0154 Enbridge 2010 DSM – GEC Submissions

Attached are GEC's submissions.

Sincerely,

David Poch

Cc: all parties

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GEC Comments on Enbridge 2010 DSM Plan

Introduction

In anticipation of a revisiting of a variety of policy issues regarding gas DSM in Ontario, the Ontario Energy Board (OEB) has requested that both Enbridge Gas and Union Gas file one year DSM plans for 2010 rather than multi-year plans. Further, the Board has suggested that the one-year plans should assume that the current DSM framework remains in place.

In that context, GEC's review of the Enbridge's filed plans has been intentionally more cursory than in the past, assuming that the OEB prefers a more strategic review in this transition year. Thus, our review focused on the following topics:

- The 2010 market transformation goals and performance incentives;
- New programs proposed for 2010;
- New prescriptive measure assumptions proposed for 2010, including changes to the Board approved Navigant assumptions; and
- Issues raised by the 2008 Auditor that have not been addressed.

The Board should not interpret this strategic focus as an endorsement of the elements of the utilities' plans on which we are not commenting. We have simply assumed that concerns we have regarding other elements of the utilities' plans should be addressed as part of the broader discussion that will occur at a later date regarding possible changes to the current DSM framework.

These comments were developed on GEC's behalf based upon a review by its consultant, Chris Neme of the Vermont Energy Investment Corporation. As the Board is aware, Mr. Neme is a DSM expert with more than twenty years of relevant experience, including work for clients in more than twenty states and several Canadian provinces. He is intimately aware of the current Ontario gas utility DSM programs, as well as the evolution of both those programs and the Board's policy guidance regarding gas DSM. He has been elected by the full group of DSM stakeholders to serve on both the Enbridge and Union Gas Evaluation and Audit Committees (EACs) on numerous occasions in the past; he currently serves on the Enbridge EAC. Mr. Neme has also filed and defended regulatory testimony before the OEB on more than a dozen proceedings since the mid-1990s.

Market Transformation Metrics

GEC submits that there are a number of problems with Enbridge's proposed market transformation metrics, particularly since they serve as the basis for earning shareholder incentives. We have one over-arching generic concern -- whether the incentive for any individual metric is capped at 150% of the incentive earned for meeting the target goal for the metric. We also have several program-specific concerns.

150% Cap for Individual Metrics

In its draft 2008 annual report, the Company has suggested that it can earn bonus incentives for exceeding goals on individual market transformation metrics. The Company has assumed that the bonus is proportional to the margin by which it exceeded the goal, with no cap on the amount that can be earned for any one performance metric. Indeed, its draft 2008 annual report claimed more than 400% of the incentives set aside for one individual metric and over 200% for several others. The result is that metrics that were supposed to have limited weight when it comes to earning shareholder incentives dominated the Company's initial calculation of incentives for some market transformation programs.

Our read of the Company's own filing on market transformation incentives (which the OEB adopted) several years ago suggests that the Company can earn extra incentives on individual performance metrics, but only up to the point where it achieves 150% of the goal for that metric. Put another way, very high numbers relative to goals on metrics that are not meant to have great weight should be allowed to only *partially* offset short-falls on much more important metrics. Specifically, in the Company's Market Transformation Incentive Update filed 2/26/07 (EB-2006-0021, Exhibit B, Tab 1, Schedule 1, p. 1), the Company says:

> "The MT Share Savings Mechanisms (SSM) amount for any program results will be prorated on a linear basis between the scorecard levels for each program (i.e. 0%, 50%, target or 100% and 150%) indicated in the program scorecards."

This very clearly says that one cannot go beyond 150%. It says that the SSM amount will be prorated "between" the scorecard levels indicated on the program scorecards. It does not say "between and beyond". None of the filed scorecards (see subsequent pages in the referenced Enbridge filing) has a "level" higher than 150%. Also, the parenthetical in the quoted sentence above uses "i.e.", which says that these are the exact values to be used, not "e.g." which would have implied that the values shown are examples only.

It should also be noted that although the 2008 Auditor did not pass judgment on either our or the Company's competing interpretations of the rules on this issue (because it was outside its purview), the Auditor agreed that an approach that would allow for less important metrics to disproportionately contribute to SSM claims is problematic.

While Union Gas has made clear that it believes there is a 150% cap on incentives for any one market transformation metric (EB-2009-0166, Exh B3.6, p. 2), Enbridge's market transformation proposals for 2010 do not address this issue. GEC submits it is important for the Board to provide clarity in its approval of the 2010 plans regarding whether a utility should be able to earn shareholder incentives for exceeding 150% of the goal for an individual metric.

Home Performance Contractor Market Transformation Program

GEC has several concerns about Enbridge's proposed metrics for the Home Performance Contractor program. They are as follows:

1. **Two measures promoted by the program are measures which efficiency and building science experts agree normally provide very little energy savings**. They are item #6 (weather-stripping existing doors) and #7 (weather stripping existing windows) in the table on Exhibit B, Tab 1, Schedule 4, p. 3. We submit that these two measures

should be deleted from the table and the measurement of performance metric achievement.

2. **The value of Company's "contractor engagement" metric is limited, particularly for a program that is in its fourth year**. The Company incorrectly calls this metric a "market effects" metric. It is not. It does not measure any change in the market, such as change in contractor attitudes regarding important weatherization measures.

3. **The metric around how many workshops were held has no value at all**. First, what really matters is how many people got trained – which is covered by the "contractor engagement" metric. As far as market transformation is concerned, it is irrelevant whether it takes 5, 10 or 50 workshops to meet the participation goal.

4. **The Company has too much weight on metrics that are only indirectly related to transforming the market**. Specifically, between the contractor engagement metric and the workshop metric, Enbridge still has 40% of the shareholder incentive riding on metrics that do not measure changes in the market. While that may be appropriate in the first year of a market transformation program, it is not appropriate for the fourth year of a program. In interesting contrast, the Company has proposed that only 15% of the weight would be applied to program training metrics for its other market transformation program, the Drain Water Heat Recovery program, even though that program is in its first year. Eliminating the workshops metric and moving its 20% of the weight to the ultimate outcomes metric (i.e. so that only two metrics remain and 80% of the weight is on the ultimate outcomes) would adequately address this problem.

5. **The performance targets the Company has proposed for each metric are too low**. They appear designed to ensure that the Company earns significant shareholder incentives rather than to demonstrate adequate progress towards a transformed market.

    a. The target increase in frequency scores for weatherization measures of 0.45 represents a pretty small increase. It is worth noting that the 0.45 proposed target is well below the 2008 target of 1.00, probably because the Company failed to meet the 2008 target. Put another way, the Company is lowering its goals rather than change its program design so that the original, more aggressive goals could actually be met. The Company has not provided any information to suggest that the 0.45 goal is what the market needs to see in order to move towards transformation within any reasonable time horizon. In the absence of such evidence, GEC submits that it is inappropriate to lower the target.

    b. The target for contractor engagement of 70 is only about 30% of what was actually achieved in 2008 and well below what the company appears on track to achieve in 2009 as well.

    c. The target for workshops of 8 is only half of what was achieved in 2008.

While we have offered some suggestions for how the Board could address some of the issues note above, we submit that the issues are too numerous, too technical and too wide-ranging to be adequately addressed through this process. Thus, GEC suggests that the Board require Enbridge to consult with the EAC in the 4th Quarter of 2009 to develop a finalized, consensus scorecard for this program. We note that Union has proposed to do just that for its market transformation program (EB-2009-0166, Exh B3.6, p. 2).

Drain Water Heat Recovery Market Transformation Program

GEC has several concerns about Enbridge’s proposed metrics for the Drain Water Heat Recovery program. They are as follows:

1. **The Company’s plan incorrectly suggests that 85% of its metric weight is assigned to four metrics in the “ultimate outcomes” category**. However, the last two of those metrics – “builder knowledge” and “service provider promotion” – are measures of “market effects”, not measures of “ultimate outcomes”.[1] Thus, only 50% of the metrics are actually assigned to “ultimate outcomes”.

2. **The “installed units” goal of 1800 is too low**. It represents only about 9% of the housing market. Union’s proposed goal is 14%. Since many builders (particularly large builders) are likely to build in both service territories, it is far from clear that the proposed market share should be appreciably different, even though Union has been working in this market longer.

3. **The “builder knowledge” metric is inadequately defined**. The Company should be required to specify the question or questions that will be used to gauge knowledge so that the Board and others can determine whether the metric is both useful and sufficiently aggressive. GEC suggests that the builders not be considered “knowledgeable” under this metric unless they: (i) demonstrate they understand how the technology works; (ii) demonstrate they know approximately how much energy it can save; and (iii) demonstrate they know approximately how much it costs.

4. **No baseline information for the “units installed”, “builder knowledge” or “service provider promotion” metrics have been provided**. This makes it impossible to judge whether the goals are sufficiently aggressive. At a minimum, GEC suggests that the “units installed” metric be revised to be 900 units or a doubling of units installed in 2009, whichever is greater.

While we have offered some suggestions for how the Board could address some of the issues note above, we submit that the issues are too numerous, too technical and too wide-ranging to be adequately addressed through this process. Thus, GEC suggests that the Board require Enbridge to consult with the EAC in the 4th Quarter of 2009 to develop a finalized, consensus scorecard for this program. We note that Union has proposed to do just that for its market transformation program (EB-2009-0166, Exh B3.6, p. 2).

[1] “Ultimate outcomes” represent the outcome that we would measure to determine if a market has been transformed. An increase in builder knowledge, for example, does not measure an ultimate outcome because it is possible for builders to become aware and still not install the measure in question. Thus, it is an indicator of a change in the market – a “market effect” – that the Company is hypothesizing would lead to the ultimate outcome of more routine installation of drain water heat recovery devices.

New 2010 Programs

The Company's proposed 2010 plan includes additional funding for two new pilot initiatives targeted to the industrial sector. The Company states that the new 2010 pilot programs are "not proposed to have any SSM or target impacts" (Exhibit B, Tab 4, Schedule 1, p. 1, paragraph 2). When asked whether that means that the Company will not claim any savings from any measures installed in facilities covered by the pilot initiatives, the Company responded that it did not *expect* any savings from such initiatives in 2010. However, it did not rule out the possibility that there would be (Exh I, Tab 5, Schedule 12). GEC suggests that the Board make clear that, since the cost of these pilots are not proposed to be included in the Company's TRC net benefits calculation, no savings or TRC net benefits arising from measures installed in 2010 in the facilities covered by these pilots should be included in the Company's TRC net benefits calculation (and therefore not affect the Company's shareholder incentives).

New Assumptions

Enbridge is proposing a number of new assumptions in its 2010 filing. GEC has two major concerns about these proposals. They are as follows:

1. **Prescriptive boilers**. Enbridge has proposed to change from custom calculations of boiler savings for commercial customers to prescriptive ones. This is analogous to what the Company did in 2008 for boilers installed in schools. We note that the 2008 Auditor suggested that the prescriptive approach was not necessary and appropriate for schools and that the Company revert back to custom calculations for that market. GEC finds it troubling that the Company is not only not adopting the Auditor's recommendation for schools, but is proposing to apply the same approach the Auditor recommended against using for schools to all other segments of the commercial market.[2] Furthermore, it is doing so based on a study completed a year ago that was never shared with the EAC or reviewed by the 2008 Auditor. The Board should reject this proposal, particularly in a transition year.

2. **Thermostats**. Enbridge is proposing to nearly triple the final Navigant assumption regarding gas savings from programmable thermostats. We appreciate that the Company disagrees with the final Navigant report. However, the Company has not discussed this proposal with the EAC nor provided a copy of any study supporting the company proposal. Also, the Auditor did not flag the Navigant assumption as problematic. Moreover, GEC also disagrees with many of Navigant's conclusions. However, given what we understand to be the Board's objective for this proceeding, we have chosen to be more strategic in the issues we raise and have not attempted to revisit what we view as other problematic Navigant conclusions. We submit that it is inappropriate for the Company to revisit such assumptions unless they have been flagged by the Auditor as problematic and/or discussed with the EAC.

[2] In Exh B, Tab 3, Schedule 1, p. 4 Enbridge says this is just for "commercial customers in smaller facilities". However, in both Schedules 2 and 3 of the same Exhibit and Tab, the Company suggests that this measure applies to all boilers up to 1.5 million BTUH of capacity. That will address far more than just small customers. Indeed, the Company's own consultant estimates that it will cover more than 95% of all commercial accounts (Exh I, Tab 5, Schedule 10, Attachment p. 10.)

2008 Auditor Recommendations

At the same time that the Company is proposing to change measure savings assumptions or the approach to measure savings assumptions that were either not addressed by the Auditor or (worse still) are against the Auditor's recommendations, they have not proposed several changes that would have been consistent with Auditor's recommendations (but lowered the Company's TRC estimates). Three examples are particularly noteworthy.

1. **Steam trap measure life**. The 2008 Auditor suggested that the Company's 2008 assumption of 13 years was based on a fundamentally flawed analysis. The Auditor suggested that a life of 6 years be used instead. However, the Company has proposed keeping the 13 year assumption. We suggest that the Board require use of the Auditor recommended 6 year assumption.

2. **Showerheads**. The 2008 Auditor also suggested that the Navigant proposed savings assumption for showerheads was problematic because it was based on another fundamentally flawed Enbridge study. The Auditor suggested that Enbridge use the 2008 Summit Blue study estimates, which served as the bases for the 2008 SSM assumptions, for 2008 LRAM purposes as well. It is worth noting that this is the only measure for which the Auditor suggested LRAM savings be estimated using assumptions other than those put forward by Navigant. GEC submits that this is sufficient basis for changing the 2010 assumptions for showerheads back to the Summit Blue values that the Company used in 2008.

3. **Energy Star homes**. The 2008 Auditor stated, and GEC whole-heartedly agrees, that "it is highly likely that the free-ridership rate under the current program design is significantly higher than the 5 percent approved by the OEB." Indeed, during that process the Auditor initially proposed a 95% free rider rate though it did not include any value in its report due to a lack of sufficient empirical data. As far as we can tell, Enbridge has not proposed the kind of significant changes to the design of this program that the Auditor was suggesting would be necessary to justify anything close to the 5% free rider assumption the Company has proposed to continue to use. While we recognize that no study to document a different assumption has been conducted, GEC submits that the burden of proof for assumptions lies with the utilities rather than with intervenors, particularly where the Auditor has indicated that the current assumption is grossly in error. Thus, until and unless the Company proposes to either change its program design to one that will have significantly lower free ridership or conducts a study that supports its current assumption, we suggest that the Board adopt a free rider assumption of 95% for this program.