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BY EMAIL

May 22, 2014

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Dear Ms. Walli:

Re: Enbridge Gas Distribution Inc.
2012 Demand Side Management Variance Accounts
EB-2013-0352

Please see attached Board staff's submission for the above proceeding.

Yours truly,

Original signed by

Michael Bell
Project Advisor, Applications

BOARD STAFF SUBMISSION

Board Staff Submission on Enbridge Gas Distribution Inc.'s
Application for Clearance of the
2012 Demand Side Management Variance Accounts – Revised Calculations

EB-2013-0352

May 22, 2014

Background

In the Board's Decision and Order dated May 1, 2014 ("Decision") on Enbridge Gas Distribution Inc.'s ("Enbridge") application for clearance of the final balances of its 2012 Demand Side Management ("DSM") Deferral and Variance Accounts, the Board made the following finding:

> Accordingly, the Board agrees with SEC that a reduction of Enbridge's claim for large industrial custom projects is appropriate. However, the Board finds that SEC's proposal to deny the entire incentive amount related to volumes on the assumption that Enbridge does not meet the volume threshold is not justified. The Board does not consider it possible to make an adjustment for these projects with any kind of precision, given that this would involve an attempt to re-assess each project retroactively. However, the Board's findings in this regard have been well informed by Enbridge's forthright explanations of its approach to the overall management of this program.
>
> Based on the above, the Board considers it appropriate to disallow 20% of the (Demand Side Management Incentive Deferral Account) DSMIDA amount attributable to the large industrial customer projects.

Enbridge's Revised Calculations

On May 15, 2014, Enbridge filed its revised calculations of the DSMIDA amount. Within Enbridge's submission, it noted that it understood the Board's Decision to require a reduction to its DSMIDA dollar value attributable to the large industrial custom projects and not the associated volumes.

Enbridge's calculations applied a 20% reduction to the DSMIDA amount attributable to the large industrial projects of $1,041,411. This calculation resulted in a reduction of $208,288 (or 2.4% of total incentive amount) for a revised DSMIDA amount attributable to the industrial projects of $833,153.

SEC's Revised Calculations

Also on May 15, 2014, SEC filed its submission on Enbridge's calculations based on the Board's Decision. SEC did not agree with Enbridge's calculations and its proposed revised DSMIDA amount.

SEC noted that the DSMIDA is a non-linear calculation and that incremental savings volumes earn incentives at a different rate than base volumes. Further, SEC submitted that the correct calculation of the revised DSMIDA amount should be based on the underlying rationale for the Board's decision, that Enbridge did not provide sufficient support for the volumes attributable to its large volume programs.

SEC submitted that the reduction in DSMIDA dollars should be based on a certain amount of gas savings volumes, and that the reduction should reflect the impact of reducing the large volume gas savings volumes by 20%. SEC's revised calculations resulted in a reduction of $655,049 (or 7.4% of total incentive amount) to the overall DSMIDA amount.

DSM Guidelines (EB-2008-0346)

Section 11 of the DSM Guidelines outlines how the incentive structure should be developed. It notes the following:

> As described in section 9, performance for all three generic types of programs, (i.e., resource acquisition, low-income, and market transformation programs) will be evaluated using balanced scorecards. Also, as described in section 10, targets at 50%, 100% and 150% will be established for each metric on the scorecards. No incentive will be provided for achieving a scorecard weighted score of less than 50%. <u>For each metric on the scorecard, results will be linearly interpolated between 50% and 100%, and between 100% and 150%.</u> Metric results below 50% will be interpolated using the 50% and 100% targets, metric results above 150% will be interpolated using the 100% and 150% targets.
>
> To encourage performance beyond to 100% target level, a pivot point should be introduced at the 100% level. <u>More specifically, the 40% of the incentive available should be provided for performance achieving a scorecard weighted score of 100% level, with the remaining 60% available for performance at the 150% level</u>…. (emphasis added)

Board staff notes that, as outlined above and discussed by SEC, the Board's guidance to the gas distributors regarding incentive payments was that incentive amounts will increase when moving from one target level to the next. Based on this, the rate of incentive payments differs based on gas volume savings between 50% and 100%, and between 100% and 150%, providing a higher incentive rate for incremental savings in the upper target level.

Enbridge's 2012 DSM Settlement Agreement (EB-2011-0295)

The table below shows Enbridge's approved 2012 Resource Acquisition Scorecard (as found in its Settlement Agreement approved by the Board on February 9, 2012).

Component	Metric	Weight	Lower Million m^3	Middle Million m^3	Upper Million m^3
Volumes	Lifetime cubic meters	92%	615.3	820.4	1025.5

Also outlined in Enbridge's approved 2012 DSM plan is the maximum Resource Acquisition incentive amount of $6.440 million.[1]

The table below summarizes SEC's submission and shows the higher rate of incentive dollars (1.7335 cents/cumulative cubic meter) available to Enbridge for gas volume savings in the upper target level. SEC based its calculations on the evidence provided by Enbridge in response to SEC IR#1[2]. Enbridge noted in SEC IR#1 that its calculations were based on Section 11 of the DSM Guidelines which, as noted above, shows that the incentive structure is weighted to provide a higher rate of incentives to the highest target level.

	Lower Million m^3	Middle Million m^3	Upper Million m^3
Lifetime Cubic Meters	615.3	820.4	1025.5
Incremental Savings	n/a	205.1	205.1
Incentive Available	$0	$2,370,238	$3,555,358
Cents/cumulative cubic meter	n/a	1.1556	1.7335

If Enbridge's total large volume savings of 193.18 million m^3 were to be reduced by 20% this would result in a reduction of 38.636 million m^3. Enbridge would then have fewer gas savings in the upper target level which earn the highest incentive rate.

[1] EB-2011-0295, Exhibit B, Tab 2, Schedule 9, Page 12 of 21
[2] EB-2013-0352, EGD IRR, SEC IR#1, Exhibit I, Tab 2, Schedule 1, Page 1 of 2, Table 1

Union Gas Limited's 2012 Earning Sharing & Disposition of Deferral Account and Other Balances (EB-2013-0109)

The Board made a similar finding in Union Gas' 2012 Earning Sharing application, reducing the 2011 TRC amount related to Union Gas' large industrial custom DSM programs by 25%. The Board noted the following in its Decision and Order to Union Gas:

> On the balance and consideration of the aforementioned, the Board considers it appropriate to disallow 25% of the 2011 TRC amount attributable to the large industrial custom projects (Rate T1 / 100). As a result, the Board expects that the 2011 SSM amount and 2011 (and possibly 2012) LRAM amount will need to be reduced.

In response to the Board's Decision, Union Gas filed an updated Draft Rate Order which fully recalculated its 2011 TRC amount and 2011 LRAM amount. Union Gas reduced its 2011 TRC amount applicable to its large industrial results by 25% and the gas savings volumes applicable to its 2011 LRAM amount by 25%.

Union's reduced SSM amount, which was based on Union re-calculating the revised SSM amount in the same manner the original SSM amount was calculated, resulted in a reduction of its SSM by $1.604M (or 17.4% of Union's total SSM amount). Had Union re-calculated its 2011 SSM amount in a manner similar to the manner Enbridge has proposed in the current case (to reduce the absolute incentive dollar amount attributable to large volume programs by the percentage directed by the Board), Union's revised SSM would have been reduced by $1.277M (or 13.8% of Union's total SSM amount). Had Union re-calculated its SSM similar to what Enbridge has proposed in this case, it would have resulted in an SSM that was higher by $326,468 than the approved amount.[3]

Board staff notes that although the framework and specific instructions for calculating incentives in Union's 2011 case (Generic DSM Decision, calculated based on TRC savings) and Enbridge's 2012 case (2012 DSM Guidelines, calculated on natural gas savings) varied somewhat, the same principles applied. For achievement past the 100% target level, the rate of incentives is higher.

[3] EB-2013-0109, Rate Order, Appendix C, Schedule 4, April 10, 2014

Board Staff Submission

Board staff submits that the most appropriate manner to calculate Enbridge's revised DSMIDA amount is to follow the method that Enbridge originally used to calculate the DSMIDA amount, as opposed to strictly reducing the absolute DSMIDA dollar amount attributable to the large volume programs. This would, in staff's submission, appropriately reflect the Board's Decision and its finding that Enbridge has not sufficiently supported the savings associated with its industrial program.

- All of which is respectfully submitted -