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October 15, 2014

VIA COURIER, EMAIL, RESS

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

Re: Ontario Energy Board (the "Board")
EB-2014-0134 - Consultation Process for Developing a New Demand Side Management Framework for Natural Gas Distributors
Submissions of Enbridge Gas Distribution Inc. ("Enbridge")

In accordance with the letter issued by the Board on September 15, 2014, enclosed please find the comments of Enbridge on the Board's *Draft Report of the Board: DSM Framework for Natural Gas Distributors* and *Draft DSM Guidelines to the DSM Framework.*

Please contact the undersigned if you have any questions.

Yours truly,

(Original Signed)

Andrew Mandyam
Director, Regulatory Affairs and Financial Performance

RESPONSE TO THE REPORTS FROM THE ONTARIO ENERGY BOARD

Draft Report of the Board; Demand Side Management Framework for Natural Gas Distributors

Draft Filing Guidelines to the Demand Side Management Framework for Natural Gas Distributors
(EB-2014-0134)

SUBMISSION FROM ENBRIDGE GAS DISTRIBUTION INC.

October 15, 2014

CONTENTS

INTRODUCTION

This document presents the response of Enbridge Gas Distribution Inc. ("Enbridge" or "the Company") to the Draft Report of the Ontario Energy Board (the "Board") on the Demand Side Management ("DSM") Framework for Natural Gas Distributors (the "draft DSM Framework") and the Draft Filing Guidelines to the DSM Framework (the "draft DSM Guidelines") as issued on September 15, 2014. These documents were published following a Consultation process led by the Board over the summer of 2014.

The framework governing DSM activities in the natural gas sector was first established in the Board's Report, EBO 169-III (1993) and has been evolving ever since in response to changing circumstances and with the aim of facilitating energy efficiency and the conservation of natural gas. The landscape for DSM has changed significantly in recent years both within the natural gas sector and in the broader Ontario context. The current framework discussions are prompted by the need to develop a suitable framework for the next multi-year plan period and they are informed by the Minister of Energy's Conservation Directive to the Board ("the Minister's Directive") issued on March 31, 2014, which set out some key objectives for natural gas DSM including:

- *"…the achievement of all cost-effective DSM…"*, and;
- Closer alignment of *"…DSM efforts with CDM efforts."*

Enbridge has been a leader in demand side management activity for almost two decades. In that time the Company has:

- Opened DSM programs to more customer segments.
- Transformed the markets for some technologies.
- Introduced new technologies for customers.
- Advanced codes and standards.
- Pioneered new program approaches.
- Engaged multiple players and channels in the market.

Enbridge has increased and effectively managed DSM budgets from several million to over thirty million, and reduced natural gas consumption by 8.8 billion m^3 between 1995 and 2013[1]. These reductions are equivalent to providing enough natural gas to serve 2.9 million average homes for a year or reducing greenhouse gas emissions equivalent to taking 3.2 million cars off the road[2]. The scope and reach of Enbridge's DSM programs is illustrated by the people and groups that the Company has engaged in DSM activities. Enbridge has worked with customers, intervenors, channel partners, industry associations, municipalities, consultants, contractors, other jurisdictions, government, environmental non-governmental organizations, electricity utilities and more to design and implement best in class offers for our customers. The involvement

[1] Subject to 2013 Clearance of DSM Accounts
[2] Assumes the average residential customer uses 3,064m^3 per year and that each automobile produces 5.1 tonnes of CO^2 emissions each year.

of stakeholders has added value to the Company's DSM processes, whether those processes be program design, evaluation and measurement, or planning. In addition, Enbridge sees a high level of value in broad based DSM through customer bill reduction, environmental impacts, and economic benefits to society. Enbridge has established itself as a trusted advisor on energy efficiency solutions for its customers and works each day to maintain its place as a leader in North American conservation.

In order to continue to drive the behaviour and results desired, the DSM Framework for 2015 to 2020 must balance a new vision for the future of conservation with the experiences and practices that have driven successful results in the past. Looking to the future, the Minister's Directive outlined a bold policy for the energy sectors of Ontario founded on Conservation First. Looking to the past, Enbridge has worked with Union Gas Ltd. ("Union"), stakeholders and the Board since the early 1990's to create a regulatory environment which drives the aggressive pursuit of natural gas savings and a culture of conservation.

Overall Enbridge believes that the Board's draft DSM Framework provides an appropriate starting point for finding this balance. Directionally, the Company is supportive of the following six out of the ten Guiding Principles outlined by the Board in its draft DSM Framework[3]:

- Programs should be designed to pursue long-term energy savings.
- Minimize lost opportunities when implementing energy efficient upgrades.
- Design programs so that they achieve high customer participation levels.
- Gas utilities will be able to recover costs and lost revenues from DSM programs.
- Shareholder incentives will be commensurate with performance and efficient use of funds.
- Where appropriate, coordinate and integrate DSM and electricity Conservation Demand Management ("CDM") efforts to achieve efficiencies.

[3] Draft Report of the Board. "Demand Side Management Framework for Natural Gas Distributors," EB-2014-0134, p.8-9

Format of the Submission

This document presents the response of Enbridge to the Board's draft DSM Framework and the "draft DSM Guidelines as issued on September 15, 2014.

The Company's detailed comments are presented in two sections:

- Section 1: Provides a direct response to the options and discussion questions posed by the Board in regard to targets, budgets, shareholder incentive, and program types.
- Section 2: Addresses other areas of the Board's draft DSM Framework on which Enbridge would like to provide comments.

1.0 RESPONSE TO BOARD OPTIONS AND QUESTIONS

For each of the sub-sections that follow, before addressing the Board's specific questions, the Company will offer its high level comments which will serve as the rationale and context for the answers provided to the Board's specific questions.

1.1 TARGETS

BOARD OPTIONS AND QUESTIONS:

The Board is considering two options for how to appropriately develop the long-term natural gas savings targets to be met by 2020:

- Option 1 – the gas utilities develop and propose provisional long-term natural gas savings targets based on most recent potential studies.
- Option 2 – the Board develops provisional long-term natural gas savings targets based on an assessment and analysis of achievable potential by the Board, making use of studies that are available.

Further, the Board is interested in responses to the following questions:

1) Is a total reduction equal to 5% of average annual gas sales from 2011 to 2013, attributable to DSM programs, a reasonable amount for the gas utilities to be expected to achieve in 2020 (consisting of savings in 2020 and savings from 2015 to 2019 persisting in 2020)?
2) Which option is the most appropriate for developing fair and objective, yet challenging, long-term natural gas savings targets?
3) What information, other than what is listed above, should the utilities / Board consider when developing the long-term targets?
4) Is the proposal for developing provisional long-term targets to guide the gas utilities in building their DSM Plans, with the final long-term targets determined through the hearing process, an effective manner to develop and approve realistic targets?
5) Is there a different method in which long-term targets could be developed that the Board should consider?

ENBRIDGE RESPONSE:

Enbridge agrees that annual targets and results should continue to be the primary determinant of performance given their historical success in driving desired utility behaviour. If it is accepted that annual targets should continue to serve this purpose, the iterative development of these annual targets should serve as the basis for the establishment of a long-term 2020 goal rather than the opposite taking place. Enbridge does not believe that the establishment of a long-term provisional target should serve as the starting point for the development of annual targets and scorecards. The Board has indicated that it will "…assess the gas utilities' overall performance based on their actual

achievements in relation to the various annual targets approved by the Board.", and that "Shareholder incentives would be based on the achievement of the annual scorecard"[4].

The Company has three concerns with the establishment of a long-term 2020 target based on annual gas reductions which persist until 2020 as the basis for developing annual targets. First, strict adherence to a long-term target without consideration for market ebbs and flows will hinder the utilities' ability to develop balanced DSM portfolios in pursuit of the strategic priorities identified by the Board in its draft DSM Framework. Establishing a 2020 target for direct and measurable natural gas reductions as the starting point for annual target and scorecard development may necessitate the gas utilities prioritizing highly cost-effective savings through their largest customers above other important activities. To the degree that less cost-effective opportunities which reach high numbers of participants, offer low income programs franchise-wide, educate consumers on energy efficiency, pursue innovative programming, or coordinate with electricity CDM can be accommodated within a reasonable impact on rates, these opportunities should of course be incorporated. But in the event that reasonable rate impacts cannot accommodate both the 2020 natural gas saving target and the wide variety of priorities identified by the Board, the gas utilities may be forced to prioritize programs that can achieve the long-term target at the expense of the Board's other priorities.

Second, a long-term target which takes into account annual reductions in natural gas use which persist only until 2020 may not incent the type of behaviour the Board has otherwise indicated to be desirable. By way of example, the Board has expressed a desire for the gas utilities to pursue long-term energy savings such as wall and attic insulation[5]. These types of DSM measures can be expensive, but can also realize natural gas reductions which last for decades. In prioritizing how to spend its DSM budget in order to meet a target which will only consider natural gas reductions lasting until 2020, the utility may experience a disincentive to pursue more expensive and meaningful long-term energy savings.

Enbridge's third concern relates largely to the achievability of a 2020 gas savings target which could be set at 5% of average annual gas sales from 2011 to 2013; or an average of 0.8% for each of the six years in the Framework. As an aside, Enbridge assumes that the targets would not be the same for the two utilities as they have different customer profiles – Enbridge with a significantly larger proportion of its customers being residential. As the Board has noted, Enbridge's actual annual gas savings for 2011 and 2012 were 0.67% and 0.57% of total gas sales respectively. Although Enbridge has not yet cleared its DSM accounts through a Board proceeding, the most recent figures filed with the Board indicate that in 2013 Enbridge's actual annual gas savings as a percentage of total gas sales were 0.41%[6]. If the Board wishes to see Enbridge effectively double its annual natural gas savings to 0.8% of annual gas sales the

[4] Draft Report of the Board. "Demand Side Management Framework for Natural Gas Distributors," EB-2014-0134, p.10
[5] Draft Report of the Board. "Demand Side Management Framework for Natural Gas Distributors," EB-2014-0134, p.9
[6] EB-2014-0277 B-1-1, p. 19; Draft Report of the Board. "Demand Side Management Framework for Natural Gas Distributors," EB-2014-0134, p.14, table 2

Company cautions that looking at past results may not on its own provide a solid indication of the necessary budget or capacity to achieve such a 2020 target while simultaneously pursuing the other priorities identified by the Board.

The year over year decrease in Enbridge's annual natural gas savings is the result of both a maturing DSM market and Enbridge's aggressive pursuit of the priorities identified by the Board in the 2012 DSM Guidelines. Specifically, Enbridge has already made significant strides toward the pursuit of long-term or deep savings, the avoidance of lost opportunities, a significant increase in dedicated low income programming, and innovative performance programming such as its Run it Right offer for commercial customers. Pursuit of these priorities, much like the priorities identified by the Board in its most recent draft DSM Framework, has the effect of reducing the annual natural gas savings that can be achieved with a given DSM dollar. Enbridge understands that targets should be established to be challenging, but the Company harbors concerns that a doubling of annual natural gas reductions may not be achievable with a reasonable impact on rates.

As such Enbridge believes that long-term goals should be built from the bottom up using detailed market data and expectations and proposed by the gas utilities as part of their DSM Plan submission. While DSM potential studies will most certainly serve as an important input and valuable high-level perspective for the targets proposed, the utilities are best situated to interpret the complex historical and market contexts in which such studies must be considered. To the degree that proposed annual targets are amended throughout the course of a Board proceeding the 2020 goal should be amended accordingly in recognition of its dependence on annual targets. Enbridge believes a 2020 natural gas savings goal has excellent reporting and communication value to the gas utilities, the Board and the Government of Ontario. While the Board may consider the establishment of a notional long-term goal which could be revisited during the mid-term review, the Company proposes that the focus of target establishment and achievement continue to be on an annual basis.

Turning to the specific questions posed by the Board, the Company offers the following responses:

1) Is a total reduction equal to 5% of average annual gas sales from 2011 to 2013, attributable to DSM programs, a reasonable amount for the gas utilities to be expected to achieve in 2020 (consisting of savings in 2020 and savings from 2015 to 2019 persisting in 2020)?
    - No. As explained above, the Company believes that incremental DSM savings going forward will be harder to achieve relative to the past due to the mature nature of the market in Ontario and Enbridge's previous successes with DSM.

2) Which option is the most appropriate for developing fair and objective, yet challenging, long-term natural gas savings targets?
    - As described above, the Company favours the use of detailed market data and analysis coupled with potential study research to set annual targets. As such the Company finds Option 1 to be more appropriate with the understanding that long-term goals can be set to establish high level expectations, but should also reflect the annual targets.

3) What information, other than what is listed above, should the utilities / Board consider when developing the long-term targets?
    - In general the experience of the natural gas utilities is the most important context to all inputs for target development. To offer an example of other inputs which should be considered, the Company recommends the consideration of detailed and current market data, governmental policies or objectives, lessons learned from other jurisdictions, information regarding pilot programs or new technologies, and other expert research and analyses.

4) Is the proposal for developing provisional long-term targets to guide the gas utilities in building their DSM Plans, with the final long-term targets determined through the hearing process, an effective manner to develop and approve realistic targets?
    - No. Enbridge believes that the long-term goal should ultimately be the sum of the bottom-up annual targets proposed by the utilities in their DSM Plans. Said another way, the long-term goal should be the product of annual targets; not the other way around.

5) Is there a different method in which long-term targets could be developed that the Board should consider?
    - Yes. Please see the Company's response to question 4.

1.2 BUDGETS

Board Options and Questions:

The Board has included two different options for how annual DSM budgets can be developed:

- Option 1 – the gas utilities develop and propose DSM budgets which are a product of the analysis conducted relative to the amount of funding required to meet the long-term natural gas savings target.
- Option 2 – the Board establishes a guideline for maximum DSM budget levels which considers rate impacts to customers but will allow the gas utilities to pursue significant natural gas savings between 2015 and 2020.

The Board is also interested in responses to the following questions:

1) Should the Board provide a budget guideline that sets out the expected maximum DSM budgets?
2) If the Board decides to establish a budget guideline, is 6% of 2013 distribution revenue appropriate (plus applicable shareholder incentives)?
3) What information, other than what is listed above, should the utilities/Board consider when developing the long-term budgets?
4) Is there a different method to establish budgets that the Board should consider?

ENBRIDGE RESPONSE:

Enbridge's primary concern is that the final DSM budget is sufficient to meet the final DSM targets established in addition to achieving the priorities identified by the Board. Provided this outcome can be realized without an undue impact to ratepayers the Company can work with either budget option proposed by the Board. However, depending on program design and the definition of cost-effectiveness adopted by the Board, Enbridge cautions that the notional budget suggested on page 21 of the draft DSM Framework may not be sufficient to achieve all cost-effective DSM.

The Company would also like to highlight continued support for a low-income DSM budget that recognizes the importance of this customer segment given its relative size within Enbridge's customer base. Enbridge believes the costs associated with low income DSM should continue to be funded by all rate classes, consistent with the 2012 Guidelines and the LEAP Emergency Financial Assistance program.

As additional items for consideration:

- Enbridge would like the flexibility to propose a deferral account specifically for the purpose of pursuing programs with multi-year participation, costs and outcomes with further details to be provided in the gas utilities' DSM Plans.

- Enbridge's Board-approved DSM Plan for 2013 and 2014 allowed the Company to capitalize IT spending relating to DSM activity provided that the amounts in aggregate in each of 2013 and 2014 did not exceed $1 million[7]. The Company would like the new DSM Framework to continue to enable the utilities to apply for comparable IT spending proposals.
- Should additional priorities or targets be layered on during the six-year framework which were not present at the outset, the utilities should be able to request incremental funding.

In specific response to the Board's questions regarding DSM budgets:

1) Should the Board provide a budget guideline that sets out the expected maximum DSM budgets?
    - As noted Enbridge takes no issue with Board guidance on maximum DSM budgets, but would also be comfortable proposing a DSM budget.

2) If the Board decides to establish a budget guideline, is 6% of 2013 distribution revenue appropriate (plus applicable shareholder incentives)?
    - At a high level 6% of 2013 distribution revenue appears to have directional merit. Again however, the final budget will require an assessment of the target to be achieved, customer base to be served, and the opportunities and challenges that exist.

3) What information, other than what is listed above, should the utilities/Board consider when developing the long-term budgets?
    - The utilities and the Board should consider the success and opportunities, and the weaknesses and challenges of available programs. Information from other jurisdictions may prove helpful at a high-level, but must be considered with an understanding of the different contexts of these jurisdictions; including the maturity of the DSM market, the program portfolio, utility infrastructure and evaluation, measurement and verification protocols. Advancements in collaboration could have an impact on budgets positively or negatively, so should be considered, as well as new technologies or policy directions.

4) Is there a different method to establish budgets that the Board should consider?
    - Provided that either method allows for the iterative and interrelated development of targets and budgets the Company believes that both Option 1 and 2 are reasonable.

[7] EB-2012-0394, B-1-3, p.7

1.3 SHAREHOLDER INCENTIVE

BOARD OPTIONS AND QUESTIONS:

The Board has included two options for how annual shareholder incentives can be determined.

- Option 1 – the shareholder incentive is determined as a percentage of the gas utility's annual DSM budget.
- Option 2 – the utilities propose a pay-for-performance funding and incentive recovery model, with applicable programs, which provides both funding recovery and incentive payments through a single rate ($/m^3) to the utility, but only for verified natural gas savings.

The Board is interested in responses to the following questions:

1) Is the proposed shareholder incentive (total of 15% of budget – 10% for achieving 100% of target with an additional 5% for achieving 150%) sufficient to fully engage the gas utilities to deliver significant DSM results from 2015 to 2020?
2) Is it appropriate to tie the maximum incentive amount to the DSM budget?
3) If you do not agree the incentive amount should be tied to the DSM budget, please provide details for how the maximum incentive amount should be calculated.
4) If you do not agree that the Board should administer a cost-efficiency incentive, provide the rationale for this position and what issues the Board should consider.
5) What other aspects should the Board consider when developing the shareholder incentive? Why?
6) Is a pay-for-performance funding/incentive model appropriate

ENBRIDGE RESPONSE:

Enbridge does not believe that the proposed shareholder incentive is sufficient to fully engage Ontario's gas utilities, nor is it appropriate to link the incentive amount to the size of the DSM budget.

Given that the purpose of a shareholder incentive for DSM is to gain the sustained attention of senior utility management its size must be viewed in light of the size of the utility. To offer perspective, Enbridge had a total distribution revenue of approximately $1 billion[8] and earnings before interest, taxes, depreciation and amortization ("EBITDA") of $607.8 million[9] in 2012. Under the proposed incentive mechanism achievement of 100% of target would have earned a shareholder incentive of approximately $3 million; slightly above one quarter of one percent of distribution revenue or 0.51% of EBITDA. Like any large organization the natural gas utilities must

[8] Draft Report of the Board. "Demand Side Management Framework for Natural Gas Distributors," EB-2014-0134, p.19, table 3

[9] EB-2012-0046, B-1-2; value has been adjusted for Board Decisions

prioritize activities for the purpose of distributing internal resources. Enbridge believes a larger shareholder incentive will be required to raise and sustain the profile of DSM within these decision-making processes given that most of the areas competing with DSM for resources relate to the Company's core business.

Another important comparator is to consider the shareholder incentive in light of the net benefits the utilities' DSM activities bring to society. For example, for the 2011 program year Enbridge was approved for a shareholder incentive of $6,769,535. While comparing this amount to the DSM budget for that year might paint one picture, a much more relevant comparison can be made to the $173,183,348 in net TRC benefits[10] received by society through DSM in 2011[11]. Of the total net TRC benefits created in that year 96% of them were received by ratepayers while the Company's shareholders received 3.9% of the benefit created through utility efforts.

Enbridge believes that the size of shareholder incentives available in past years have successfully driven the gas utilities to achieve aggressive DSM results. For example, for the 2006 and 2007 program years the Board and stakeholders accepted that incentive amounts of $11.2 million and $8.2 million for Enbridge's shareholders were appropriate[12]. In these years the Company delivered approximately $180 million and $200 million respectively in net TRC benefits to ratepayers[13]. The Company proposes that in establishing shareholder incentives the Board take into account these historical precedents. If Enbridge were to significantly scale up DSM benefits and effort, it stands to reason that past amounts approved by the Board should serve as the minimum amount considered for future shareholder incentives.

In recognition of historical shareholder incentive amounts and their success in driving the appropriate outcomes in the past, as well as the Board's desire to link available incentives to the DSM budget, the Company proposes an incentive mechanism in which the maximum available shareholder incentive is the *greater* of;

1. A continuation of shareholder incentive levels available in 2014, expressed in dollars, escalated annually using GDP-IPI, or;
2. 20% of the approved annual DSM budget, where 13% is available if the gas utility achieves a weighted score of 100% and the remaining 7% is available if the gas utility achieves a weighted score of 150%.

As stated, the Company does not agree with the concept of linking a shareholder incentive directly to a given DSM budget amount. The incentive should recognize the effort involved and the outcomes of those efforts. The Company has simply provided the criteria shown above in recognition of the Board's desire to have an incentive that is

[10] Net TRC benefits refer to the economic value of natural gas, electricity and water reductions over the lifetime of the DSM measures installed, less the cost to administer DSM. Net TRC benefits do not include the value of non-energy benefits such as greenhouse gas emission reduction, improve customer comfort, economic stimulus, and job creation among others.
[11] EB-2013-0075, B-3-1, p.22, table 4
[12] EB-2007-0893, B-2-1, p.4-5; EB-2008-0271, Decision and Order
[13] EB-2007-0893, B-1-1, p.6-7; EB-2008-0271, B-5-1, p.8

more prescriptive. Given current spending levels, efforts and outcomes, an incentive range of $6-12 million has been successful in gaining and maintaining senior management attention. Should the effort and goals be expanded the incentive amount should be scaled accordingly.

One additional comment on the Board's proposed incentive model relates to utility scorecards and the percentages of 100% target which a metric's lower and upper bands represent. At present, the Board has proposed that lower band performance, the minimum level of performance required to achieve an incentive on a given metric, should represent 75% of the target. On the other hand, the Board has indicated that upper band performance, the level of performance required to receive the maximum shareholder incentive, is held steady at 150% of target[14]. Enbridge believes that the lower and upper bands should represent an equal distance from the 100% target level. That is to say, if the lower band is to represent 75% of target, the upper band should represent 125% of target. If the upper band is to represent 150% of target the lower band should represent 50% of target.

In response to the Board's proposal for a pay-for-performance funding/incentive model which combines the gas utility's shareholder incentive with cost recovery, Enbridge does not find this option to be appropriate. The Company is of the view that the current incentive mechanism has achieved considerable success and does not warrant the introduction of an untested funding mechanism which appears to run contrary to the fair return standard and cost-of-service recovery principles of rate regulation. This model becomes particularly concerning in light of the Board's statement on page 28 of the draft DSM Framework that, "The Board will set an appropriate rate ($/m^3) that incorporates budget recovery and an incentive amount…". In the event that the Board decides to proceed with a pay-for-performance model Enbridge strongly believes it should be optional and at the discretion of the utilities to apply for consistent with electricity CDM practices, that the appropriate $/m^3 rate should be proposed by the utility applying for it, and that the funding mechanism should be capable of being applied to a small subset of the DSM portfolio rather than its entirety.

In the interest of creating scorecards which drive the utilities toward the priorities identified by the Board, Enbridge is also proposing the integration of Value Multipliers within utility scorecards.

Throughout its draft DSM Framework the Board has identified key priorities and principles for natural gas utilities to incorporate within their DSM programming. These key areas are wide ranging in their impact and include strategic priorities such as coordinating and/or integrating DSM programs with electricity CDM, designing programs to achieve high customer participation levels, minimizing lost opportunities, education and energy literacy, and pursuing long-term energy savings among other goals. While the gas utilities are capable of incorporating these priorities into their DSM programming, albeit with inherent risks, challenges and costs, a key question for

[14] Draft Report of the Board. "Demand Side Management Framework for Natural Gas Distributors," EB-2014-0134, p.28

consideration is the method through which they will be incented to pursue them in order to achieve the appropriate prioritization amongst the many, sometimes competing priorities of DSM.

In some instances a dedicated metric will suffice to drive the desired behaviour and outcomes. A scorecard metric measuring the number of participants for example, is highly likely to drive the utility to not only achieve natural gas savings through the program in question but do so through a large number of participants. Similarly, to the degree that any priorities constitute market transformation activities, such as the Board's desire to see the utilities "Provide educational information on how a customer can use natural gas more efficiently…"[15] scorecards measuring outcomes other than direct natural gas reduction have successfully driven utilities in the past.

Enbridge expects however that there will be situations where incorporating these priorities into the utility's incentive mechanism proves more complicated, risking the possibility that the desired action is not prioritized. Coordinating and integrating DSM with electricity CDM for example, stands to create increased value and convenience for customers but may not necessarily increase DSM results to the point of incenting gas utilities to prioritize this activity. Similarly, energy benchmarking can enable energy savings and conservation behaviour, but for small customers in particular the methods for measuring its impacts, let alone separating those impacts from those of traditional energy efficiency programs, may be costly and difficult.

To address these instances Enbridge advocates the use of Value Multipliers; a mathematical mechanism to provide focused incremental shareholder incentives for pursuing the strategic priorities of the Board and the province. This method will recognize that those program results which further the strategic priorities of the Board and the province, in addition to achieving their primary scorecard metric, are more valuable than those results that do not advance the strategic priorities.

The use of such multipliers is a new approach to energy efficiency in Ontario, but is not unheard of. Denmark introduced weighting factors in 2008 for the purpose of recognizing the increased value of DSM activities with long measure lives, increasing the value of a given result by as much as 50%[16]. In Ontario, the OPA's Conservation First Framework for electricity CDM offers a similar mechanism, providing a blanket 40% increase to the overall shareholder incentive available to an electricity distributor that achieves the strategic objective of Regional CDM Collaboration. Through the use of Value Multipliers on DSM scorecards, natural gas utilities will be incented to pursue Board-identified priorities in a focused manner.

Enbridge believes that while Value Multipliers may not be the solution to incenting all of the Board's strategic priorities, there are instances where this mechanism will prove

[15] Draft Report of the Board. "Demand Side Management Framework for Natural Gas Distributors," EB-2014-0134, p.31

[16] Eoin Lees (2012) "Energy efficiency obligations – the EU experience," *European Council for an Energy Efficient Economy*, p.11;
Dyck-Madsen, 2011(http://www.bigee.net/en/policy/guide/buildings/policy_examples/42/#key-information)

appropriate. Value Multipliers should serve as one of many tools to drive utility behaviour and advance a culture of conservation. For clarity, the Company is of the view that neither this response document, nor the final DSM Framework, are the appropriate time to review the appropriateness and methodology of a Value Multiplier. Rather, Enbridge proposes that the Framework merely indicate that the utilities are at liberty to bring forward scorecard proposals for their multi-year plans which may include Value Multipliers for the Board's approval.

As a final point on shareholder incentives, the Company wishes to stress the linkage between targets and shareholder incentives. While targets should be challenging and closely linked to the level of effort a utility must expend to achieve them, they must also be achievable. If the targets set are viewed to be entirely unachievable in the eyes of the utility the size of an *available* incentive becomes irrelevant to management and the desired behaviour will not be driven.

1) Is the proposed shareholder incentive (total of 15% of budget – 10% for achieving 100% of target with an additional 5% for achieving 150%) sufficient to fully engage the gas utilities to deliver significant DSM results from 2015 to 2020?
    - No.

2) Is it appropriate to tie the maximum incentive amount to the DSM budget?
    - No. However, the Company understands the Board's interest in a more prescriptive approach in this area and has provided comment.

3) If you do not agree the incentive amount should be tied to the DSM budget, please provide details for how the maximum incentive amount should be calculated.
    - See response to question 2. The Company's view is that the incentive needs to be structured in a manner that gains and maintains management attention, while recognizing efforts and outcomes.

4) If you do not agree that the Board should administer a cost-efficiency incentive, provide the rationale for this position and what issues the Board should consider.
    - The Company is open to the concept of a cost-efficiency incentive. Enbridge believes that in order for this mechanism to provide added value to the gas utilities a detailed understanding of the application of this incentive would need to receive clear endorsement from the gas utilities, the Board and stakeholders. Appropriate recovery and credit mechanisms must be established. Further, it should be clear that in order to constitute an incentive to the utilities the use of such a mechanism must have no

impact on target or available budget in the following year. Lastly, it should be noted that the utilities have a natural built-in mechanism for incenting cost efficiency given that they have set budgets and the motivation to pursue greater shareholder incentives.

5) What other aspects should the Board consider when developing the shareholder incentive? Why?
    - As described above the Board needs to consider a utility's scale of operations when developing the shareholder incentive. For a Company like Enbridge, a reward any smaller than the current practice will not be meaningful in the context of the Company's operations, and as a result, may not drive the focus and results desired.

6) Is a pay-for-performance funding/incentive model appropriate?
    - No. To the degree that such a model is explored it should be at the discretion of the utilities and able to be applied to only a portion of their DSM portfolios as opposed to the entire portfolio.

1.4 PROGRAM TYPES

BOARD QUESTIONS:

In the draft DSM Framework and companion DSM Guidelines, the Board has outlined the direction it feels the gas utilities should transition DSM activities throughout the new DSM term. Parties have been invited to comment on the following questions:

1) Should the Board consider other program options in addition to those listed in the draft DSM Framework and draft DSM Guidelines? If yes, please outline which programs are appropriate and why.
2) What level of funding is appropriate for low-income programs relative to the overall DSM budget?
   Are DSM programs for large volume customers appropriate and should both gas utilities be permitted to offer these programs?

ENBRIDGE RESPONSE:

Enbridge is generally supportive of the priorities and program types put forward by the Board and would further suggest two additional priorities, one additional program type and the creation of a Natural Gas Conservation and Innovation Fund. Enbridge would also like to highlight some concerns the Company has with one of the Board's proposed priority areas.

Priorities

In regards to the Board's proposed priority areas, beginning on page 1 of the draft DSM Guidelines, Enbridge believes that priority ii), regarding the extension of low income programs to consumers across the province, should also note that low income programs for the private rental market should be included in the gas utilities' DSM portfolios. The Company would like it specifically noted that these customers should be eligible for low income DSM programs despite the fact that they may not be metered on an individual basis or live in social housing. In addition, the Company points out the requirement in section 2.6 1c) of the draft DSM Guidelines that low income programs require no upfront cost from participants. While Enbridge appreciates the Board's preference for this approach to low income consumers, the Company requests that this requirement is not written prescriptively as it may limit the utilities' ability, in consultation with stakeholders, to make valuable low-income programs available which require some contribution from customers (e.g. incentive programs covering the full incremental costs of a measure, but not its base costs).

Enbridge also believes that fuel-switching, toward the use of natural gas from other fuels, should be permitted where it can be demonstrated that a net reduction in greenhouse gas emissions has taken place or that a benefit has been generated from a societal perspective. For example, this program type could be of particular interest in relation to Combined-Heat and Power ("CHP") systems and amongst low income consumers where there may be potential to realize significant bill savings through the use of natural gas for space and water heating.

Enbridge also wishes to ensure that the Board's direction regarding on-bill financing is focused on the exploration of this concept and does not dictate the nature and timing of the implementation of such mechanisms. To facilitate the Company's investigation, Enbridge also asks that the final DSM Framework refer to these initiatives simply as "Financing." This broadening of the concept would allow Enbridge and stakeholders to explore other financing type opportunities that may be appropriate for inclusion into its proposed plan. It should be noted that Enbridge explored on-bill financing as part of its 2013 -2014 DSM Plan Update. After initial stakeholder engagement it became apparent that intervenors and other stakeholders, namely industry business partners, had concerns with Enbridge offering a preferred on-bill financing option for DSM. To the degree that the Company is asked to further explore this matter, Enbridge wishes to ensure that these concerns can be addressed before proceeding to implementation. The Company, aware that the Ministry of Energy is investigating the matter of energy efficiency financing, would also like to ensure that any action taken by Enbridge integrates smoothly with any broader provincial vision.

Program Types

Enbridge sees the program types put forward by the Board in its draft DSM Framework and accompanying Guidelines as a positive continuation of the program types identified

in the 2012 DSM Guidelines; namely Resource Acquisition, Low Income and Market Transformation. Enbridge is supportive of this method for organizing and categorizing the gas utilities' DSM portfolios, however the Company suggests the creation of a fourth program type labeled "Education and Development." Between the Minister's Directive specifically noting DSM to be inclusive of, "…education programs…[17]", the draft DSM Framework's direction to, "…provide educational information…"[18] and the draft Guideline document's call to provide, "…educational information and data to help customers use natural gas more efficiently…"[19] the Company believes the pursuit of educational activities to be well supported by policy direction.

To achieve the ambitious goals outlined by the Board, a regulatory Framework that allows for and encourages a more fulsome set of activities is needed. To meet this need, Enbridge proposes the establishment of a new Program Type, Education and Development, to include initiatives that can be resourced and supported beyond other programs which generate direct quantifiable results in the form of natural gas savings or market transformation milestones. This program type would provide a strategic complement to the Resource Acquisition, Low Income and Market Transformation programs allowing for a dedicated focus on driving educational efforts, training, and support for innovation, to drive energy efficiency action in the longer term.
With the creation of this new program type Enbridge believes that all of the Board's outlined priorities can be accommodated within the gas utilities' DSM portfolios. For illustrative purposes, below the Company has outlined how each priority could be addressed within the program types of Resource Acquisition, Low Income, Market Transformation and Education and Development:

[17] Minister's Directive TO: The Ontario Energy Board (2014), Mar. 31st , p.3
[18] Draft Report of the Board. "Demand Side Management Framework for Natural Gas Distributors," EB-2014-0134, p.31
[19] Draft Report of the Board. "Draft Filing Guidelines to the Demand Side Management Framework for Natural Gas Distributors", EB-2014-0134, p.2

Board-Identified Priority	Resource Acquisition	Low Income	Market Transformation	Education and Development
Provide financial incentives so customers can pursue energy efficient upgrades that will deliver natural gas savings over the long-term.				
Extend programs for low-income consumers across the province.				
Provide expert, value-added technical advice through energy management services.				
Provide a greater level of customer-specific educational information data to help customers use natural gas more efficiently.				
Benchmark energy usage to enable detailed data analysis and comparison of usage with other customers and pre/post program participation.				
Investigate on-bill financing for conservation measures.				
Integrate and coordinate DSM with electricity conservation programs.				
DSM programs with long-term natural gas savings.				
Infrastructure planning related programs.				
Pilot programs.				
Programs for large volume consumers.				

Natural Gas Conservation and Innovation Fund

Enbridge proposes that 3-5% of the DSM budget be earmarked as a Natural Gas Conservation and Innovation Fund. A Natural Gas Conservation and Innovation Fund would mirror the similarly named Conservation and Innovation Funds administered by the OPA whose mandate is to support innovative electricity conservation in the market. The Natural Gas Conservation and Innovation Fund would allow the gas utilities the opportunity to drive innovation by matching funding requests from the electric Conservation and Innovation Funds to ensure that natural gas conservation is adequately addressed. The Conservation and Innovation Fund could also allow the utilities to build marketplace capacity for DSM, field test unique elements of program design, conduct research that drives codes and standards, or pursue other longer term focused outcomes.

In response to the Board's questions on program types:

1) Should the Board consider other program options in addition to those listed in the draft DSM Framework and draft DSM Guidelines? If yes, please outline which programs are appropriate and why.
    - Yes. The Board should allow for an Education and Development program type in addition to Resource Acquisition, Low Income, and Market Transformation.

2) What level of funding is appropriate for low-income programs relative to the overall DSM budget?
    - The level of funding dedicated to low income programs should ultimately be proposed by the gas utilities in consultation with stakeholders. Enbridge continues to support a low income budget that is commensurate with the size and importance of low income consumers as a proportion of the Company's overall customer base.

3) Are DSM programs for large volume customers appropriate and should both gas utilities be permitted to offer these programs?
    - Yes. In Enbridge's experience, these customers place a high level of value on the services and solutions that the Company is able to provide.

2.0 OTHER COMMENTS

2.1 2015 TRANSITION YEAR

RELEVANT SECTIONS:

> *"...the Term of the DSM Framework will span a period of six-years, commencing on January 1, 2015 and ending December 31, 2020, with a mid-term review completed by June 1, 2018."*[20].

ENBRIDGE RESPONSE:

Enbridge is highly supportive of the Minister's direction for the creation of a six-year Framework for natural gas DSM in Ontario. The Company proposes that the most effective way to implement the Minister's Directive for a six-year Framework is to deem 2015 a transition year with the goal of balancing the Minister's bold new vision with an appropriate level of continuity for the market and utilities.

Enbridge recommends that the natural gas utilities be given the opportunity to work with intervenors to reach a potential settlement for the Board's approval governing the programs, budgets, targets, and distribution of shareholder incentives for the 2015 transition year. While Enbridge supports the Board's intention to take on a more involved role at the front and back end of the DSM process, the recognition of a 2015 transition year in the manner proposed would create an opportunity to demonstrate that the natural gas utilities can realize expedited and effective DSM planning processes by working with intervenors.

The Company is supportive of a 2015 transition year to begin the new DSM Framework for two reasons. First, this approach offers important consistency to Enbridge's customers and the market. DSM programs and offers build momentum over time and unexpected removal or changes can have negative impacts on results in both the short and long-term. A 2015 transition year could alleviate this concern as the programs currently in market with a high likelihood of adding value under the new Framework would be allowed to continue to function in the market without disruption. Second, the Company requires a level of consistency in its business cycles and a transition year would offer this consistency. The deployment of internal resources, contracts with external parties, the pursuit of DSM results, and general business planning have all evolved to function best with a minimum of a full year horizon. Attempting to function without known goals and objectives is unlikely to produce optimum programs and results. In upsetting these effective processes, the Company believes a period of

[20] Draft Report of the Board. "Demand Side Management Framework for Natural Gas Distributors, EB 2014-0134 p. 7

uncertainty lasting as long as six months could jeopardize the momentum for customers in the market and the significant benefits to society delivered by DSM each year.

While the exact details of the 2015 transition year should be left to the gas utilities and their stakeholders, Enbridge believes that the DSM programs currently in market should serve as the basis for programming in 2015 with some movement toward the priorities identified in the draft DSM Framework to pave the way for the remaining five years of the six year plan. To the degree that the Board determines as a result of this proceeding that the Company's DSM Plan requires significant new program development and implementation or substantial expansion of existing programs within the 2015 program year the Company should be provided with incremental budget to fulfill these objectives. Further, the Company seeks certainty not only for the market but for shareholders as well. To that end Enbridge submits that the pursuit of a 2015 transition year in this fashion must be predicated on the continuation of the current shareholder incentive cap and formulas for 2015.

Enbridge is committed to undertaking stakeholder consultations in respect of its DSM Plan for 2015 and to file with the Board either a settlement agreement or its proposal for 2015 within 8 weeks of the Board determinations in this proceeding. Should a settlement agreement not materialize, the Company requests an expedited hearing process to establish the budget, targets, programs and distribution of shareholder incentives to be undertaken under the existing shareholder incentive cap and formulas.

2.2 PROGRAM EVALUATION

RELEVANT SECTIONS:

> *"Traditionally, the evaluation process related to DSM programs has been a function that the gas utilities have managed, with input from key stakeholders included throughout the process. Recently, final program results have been challenged by stakeholders leading to longer adjudicative processes to determine the results applicable to the disposition of incentive and lost revenue amounts for both gas utilities. In order to increase transparency, objectivity and efficiency in final program evaluation results, the Board is of the view that it is in the best position to coordinate the evaluation process throughout the DSM Framework period (i.e., 2015 to 2020).*
>
> *By taking on the coordination function of the EM&V process, the Board can ensure an open process, where it consults with both the gas utilities and stakeholders at appropriate junctures in the process, seeking input on evaluation methodologies, key program features to ensure that the operational characteristics of the program generate the data and information that will provide the greatest assistance, and ensure that the evaluations are robust and accurate. The Board will conduct annual evaluations to verify that have resulted in the intended benefits and to inform future program design and delivery."* [21]

[21] Draft Report of the Board. "Demand Side Management Framework for Natural Gas Distributors," EB 2014-0134 p. 35-36

ENBRIDGE RESPONSE:

Enbridge is supportive of the Board's decision to take on a coordination role in the evaluation and verification of DSM impacts and results. It is the view of the Company that the evaluation and audit processes that have evolved between the launch of DSM and present day are not only robust but open and transparent. Despite this inclusive process developed over time through considerable stakeholder consultation some external parties have expressed that they believe the gas utilities have used their coordination of the evaluation and audit processes to their advantage, inserting a bias in the work conducted annually by third party auditors. The Company finds this perception to be completely unfounded and has worked diligently to demonstrate its legitimate interest in fair and unbiased evaluation. In light of this situation Enbridge hopes that the Board's new coordination role in this area will alleviate the unsubstantiated perception of influence by the utilities and expedite the annual verification of results.

Enbridge sees that even if the Board chooses to hire the independent third party auditor there would still be an important role for the utilities and stakeholders. In this new Framework, it is understood that utilities would continue to provide information and clarification for third party verification and audit firms, throughout the process. The utilities would also continue to act as, the point of contact for customers and program participants, as they conduct their reviews and intervenors would continue to add value by providing input on behalf of the interests which they represent. This continued role for the utilities and stakeholders may be in the form of an audit committee, similar to today, with clear timelines, roles and accountabilities. The Company may see a potential role for intervenors at the front end in the design, development and refinement of natural gas DSM programs.

Regardless of the Board's intention to take on the coordination function of impact evaluation and verification, Enbridge continues to support the inclusion of an evaluation plan within the DSM Plans submitted by the gas utilities. These evaluation plans should include the data to be captured during program implementation, as well as the evaluation and verification approaches to be used. Board review and approval of an evaluation plan will provide clarity and certainty to the utilities, stakeholders and the Board regarding evaluation and verification expectations. Further, Enbridge is also of the position that 'process evaluation', inclusive of the review of studies, program development and program roll out, should be led by the gas utilities.

Enbridge expects that the detailed implementation of Board coordination in evaluation will be an iterative process and the Company looks forward to developing these details in partnership with Board Staff and stakeholders.

2.3 INPUT ASSUMPTIONS

RELEVANT SECTIONS:

> *"The Board is of the view that it should impart its objectivity and coordinate the process of annually updating the Technical Review Manual which contains the specific assumptions related to a number of different energy efficient technologies and measures."*[22]

> *"…the Board is proposing to lead the exercise to annually update the TRM throughout the duration of the new DSM Framework term (i.e., 2015 to 2020). The Board's proposed role with respect to coordinating any updates to the standard list of input assumptions would be complementary and related to its role in leading the evaluation process, also discussed in the DSM Framework. The input assumptions will be updated regularly to reflect the relevant findings in the evaluation process. The Board's process will seek appropriate input, considerations and expertise from key stakeholders to inform future updates to the TRM manual."*[23]

ENBRIDGE RESPONSE:

Enbridge is not opposed to the Board's coordination of updating input assumptions provided that the utilities' intelligence of the marketplace is amply leveraged in the process and intervenors are afforded the opportunity to provide input.

2.4 INTEGRATED RESOURCE PLANNING ("IRP")

RELEVANT SECTIONS:

The following sections refer to the use of DSM to defer or alleviate the need for traditional infrastructure:

> *"The Board believes that rate payer funded DSM programs should focus on the following goals… Avoid costs related to future natural gas infrastructure investment including improving the load factor of natural gas systems."* [24]

> *"The Board has outlined a list of guiding principles to be considered in the development, assessment and approval of DSM Plans… Invest in DSM where the cost is equal to or lower than capital investments and/or the purchase of natural gas… Ensure DSM is considered in gas utility infrastructure planning at the regional and local levels."*[25]

[22] Draft Report of the Board. "Demand Side Management Framework for Natural Gas Distributors," EB-2014-0134 p. 36,
[23] Draft Filing Guidelines to the Demand Side Management Framework for Natural Gas Distributors" EB-2014-0134. p. 10,
[24] Draft Report of the Board. "Demand Side Management Framework for Natural Gas Distributors,"EB-2014-0134. p. 6,
[25] Draft Report of the Board. "Demand Side Management Framework for Natural Gas Distributors," EB-2014-0134. p. 10,

"…the Board expects the gas utilities' DSM budgets to enable the delivery of results in the following key areas… implementing DSM programs that address infrastructure planning processes at the regional and local levels with the ultimate goal of reducing and/or deferring future capital investments."[26]

"… the Board is of the view that gas utilities should be rewarded more heavily for results that address the following goals:…results that address infrastructure deferrals or reductions; …"[27]

"… The list reflects key priorities the Board expects the gas utilities to focus on and transition DSM activities towards over the course of the new DSM Framework. …Target initiatives in areas in which new or replacement of natural gas infrastructure is expected to be required, "[28]

"…the Board is of the view that the gas utilities should each conduct a study, completed before the mid-term review of the DSM Framework and based on a consistent methodology, to determine the appropriate role that DSM may be able to serve in future system planning efforts. As part of the long-term DSM Plan filings, the gas utilities should propose an appropriate transition plan to implement DSM as part of its future infrastructure planning efforts. At a minimum, the gas utilities should provide evidence of how DSM has been considered as part of all leave to construct applications made with the Board. This work may be informed, or influenced by other related consultations to be initiated by the Board."[29]

"Gas utilities should also provide a clear indication on how they will study the effects that DSM can have on deferring or postponing capital investments in order to develop a specific plan for how and when they will implement DSM programs to address infrastructure planning needs at the regional and local levels."[30]

ENBRIDGE RESPONSE:

During the term of the current multi-year plan, Enbridge has taken several steps to achieve better alignment of DSM with the utility's core business:

- Facilitated the development of municipal energy plans by developing a data aggregating tool which enables utilities to provide useful information on energy use to municipalities while maintaining customer privacy. The tool is widely used by electric LDCs as well as the natural gas distributors in Ontario.
- Assisting several municipalities in development of their community energy plans.

[26] Draft Report of the Board. "Demand Side Management Framework for Natural Gas Distributors,"EB-2014-0134. p. 18-19,
[27] Draft Report of the Board. "Demand Side Management Framework for Natural Gas Distributors," EB-2014-0134 p. 27,
[28] Draft Report of the Board. "Demand Side Management Framework for Natural Gas Distributors," EB-2014-0134 p. 31,
[29] Draft Report of the Board. "Demand Side Management Framework for Natural Gas Distributors," EB-2014-0134 p. 39,
[30] Draft Filing Guidelines to the Demand Side Management Framework for Natural Gas Distributors", EB-2014-0134 p. 36

- Commissioned a study to update avoided costs to include estimated avoided distribution costs in the TRC analysis of DSM results from franchise wide DSM programs.
- Established an internal Demand / Supply Working Group to facilitate communication and research relating to IRP.

And, as recommended in Section 11 of the Framework, Enbridge will undertake a study to "determine the appropriate role that DSM may be able to serve in future system planning efforts".

Though the Board's Guiding Principles ask the Company to, "Ensure DSM is considered in gas utility infrastructure planning at the regional and local levels." , it is premature at this time to specify what that "appropriate role" may be and how it may be integrated into the planning process for regional and local infrastructure.

The Company also notes that the study results (to be completed by the mid-term review) and any additional Board consultations may have implications for budgets, shareholder incentive and program types. It would be premature to include provisions regarding infrastructure planning in the utilities' multi-year plans before the results of the study (and any relevant Board consultations) are available. The mid-term review will offer the opportunity to incorporate the study results into the second half of the DSM multi-year plan, including any necessary changes to the budget, incentives, and program types. As well, any change to current infrastructure planning processes should be considered after the study results are available at the mid-term review.

As stated, Enbridge will undertake a study to "determine the appropriate role that DSM may be able to serve in future system planning efforts"; the study to be completed before the mid-term review. Enbridge will collaborate with Union Gas in developing the study methodology and provide an outline of the proposed study and expected timelines in its multi-year DSM Plan submission. Given that the study's purpose is to "…determine the appropriate role that DSM may be able to serve in future system planning efforts…", the Company believes it would be premature to provide "…an appropriate transition plan to implement DSM as part of its future infrastructure planning efforts.", or "…provide evidence of how DSM has been considered as part of all leave to construct applications." Logically, these activities will be informed through the Company's IRP study. Enbridge looks forward to participating in "other related consultations to be initiated by the Board" on the subject of DSM and future infrastructure planning.

2.5 COST-EFFECTIVENESS AND NON-ENERGY BENEFITS

RELEVANT SECTIONS:

> *"In order to determine which DSM programs should continue as part of the gas utilities' DSM Plans, the gas utilities should assess their programs using a screening process to test the cost-effectiveness of delivering the program. The Board is of the view that the gas utilities should screen all prospective programs using the Total Resource Cost ("TRC") test."*[31]
>
> *"The implementation of DSM programs could result in environmental and other non-energy benefits to the utility or the program participant. These benefits could include reduction in air pollution including greenhouse gas emissions, utility benefits such as reduction in collection costs and bad debt expenses or program participant benefits such as employment, improved comfort, increased building durability, quieter equipment operation, improved aesthetics, reduced waste and improved business productivity. As noted above, under the current DSM framework, the TRC test includes energy related benefits. The Board plans to continue to use the TRC test in this manner in the new framework."*[32]

ENBRIDGE RESPONSE:

Enbridge is of the view that mandatory screening for cost-effectiveness should take place at the portfolio level as opposed to the program level. The screening of DSM at the portfolio level will provide the gas utilities with the flexibility to pursue the Board's strategic priorities; some of which will be less cost-effective than other available DSM opportunities.

While Enbridge agrees with the Board that the TRC test is an appropriate test for screening cost-effectiveness, the Company advocates the inclusion of non-energy benefits, in particular to highlight the value of GHG emission reductions, within this calculation. Though the draft DSM Framework acknowledged the existence and variety of these benefits to society the Board has chosen not to include them in cost-effectiveness analyses. Enbridge is understanding of the difficulty in quantifying many of the non-energy benefits of DSM. However, in recent years other jurisdictions have simplified this process, recognizing the additional value of DSM through blanket increases to the avoided energy costs already calculated within the TRC test, rather than specifically identifying and quantifying each non-energy benefit distinctly[33].

Similar to non-energy benefits, Enbridge believes that the discount rate currently proposed in the draft DSM Framework, set as the utility's weighted average cost of capital, should be revised to reflect a societal discount rate. The use of such a discount rate better represents the long-term benefits of DSM measures in line with the Board's identified priorities. Further, the use of such a discount rate would align DSM with

[31] Draft Report of the Board. "Demand Side Management Framework for Natural Gas Distributors," EB-2014-0134. p. 37,
[32] Draft Report of the Board. "Demand Side Management Framework for Natural Gas Distributors," EB-2014-0134 p. 37,
[33] Ministerial Order 335 (2011) Regulation of the Minister of Energy and Mines and Minister Responsible for Housing, Utilities Commission Act, Deb.8th, p.4

Ontario's electricity CDM Framework currently under development which uses a societal discount rate of 4%.

Alternatively, if the Board continued to view the TRC test as the appropriate measure of cost-effectiveness the Company suggests that the Framework indicate the TRC test to be the default test for establishing DSM cost-effectiveness absent sufficient evidence suggesting the use of another test is more appropriate. Enbridge wishes to remain cognizant of the reality that the DSM Framework will last for a term of six years; a significant timeframe for barring the use of alternative cost-effectiveness screening options. Factors currently not considered in the TRC test may become increasingly relevant in light of the province's goals for greenhouse gas reductions in the coming years. Thus the Company requests the flexibility to respond to these factors as necessary.

2.6 RETROACTIVE APPLICATION OF ASSUMPTIONS

RELEVANT SECTIONS:

> *"The evaluation of the achieved results for the purpose of determining the lost revenue adjustment mechanism ("LRAM") amounts and the shareholder incentive amounts should be based on the best available information which, in this case, refers to the updated input assumptions resulting from the evaluation and audit process of the same program year."*[34]

ENBRIDGE RESPONSE:

In continuation of the practices established in 2012 the Board's draft DSM Guidelines call for the retroactive adjustment of DSM results in response to changes in input assumptions. Enbridge has advocated against this practice in the past and continues to do so for the following reasons among others:

- The practice creates an unrealistic expectation of the utility's ability to anticipate and respond to changes in the wide variety of inputs that influence program performance.[35]
- DSM targets and budgets, and therefore resources, are agreed to based upon values such as deemed input assumptions and net to gross ratios.[36] Changes in these values constitute changes to the foundation on which utilities agreed a given target was achievable under a given budget scenario. If changes are to affect DSM results they should logically affect the DSM targets against which those results are judged.

[34] Draft Filing Guidelines to the Demand Side Management Framework for Natural Gas Distributors," EB-2014-0134 p. 10,

[35] California Public Utilities Commission (2010) "Decision Regarding the Risk/Reward Incentive Mechanism Earnings True-Up for 2006-2008," Decision 10-12-049, Dec. 16th, p.34

[36] Kushler, Martin; Nowak, Seth; White, Patti (2012) "A National Survey of State Policies and Practices for the Evaluation of Ratepayer-Funded Energy Efficiency Programs", *ACEEE*, Report U122, Feb. p.34, 39

- The retroactive changing of assumptions, in this case net to gross values, was at the heart of one the most severe regulatory disputes in the history of North American conservation and energy efficiency. California's investor-owned utilities believed their collective incentive payments for 2006-2008 were approximately $400 million, but a retroactive change in assumptions resulted in the evaluator proposing $45 million in collective penalties to shareholders[37]. Years of legal and regulatory disputes ensued until a December 2010 decision awarded approximately $212 million in incentives to California's investor-owned utilities.[38]
- The risk created by the retroactive application of assumptions discourages utilities from pursuing innovative programs and technologies. For this reason Massachusetts, identified in the Concentric study as a leading jurisdiction in energy efficiency and conservation, no longer applies changes to assumptions retroactively when measuring results.[39]
- The retroactive application of assumptions does not appear to be best practice in North America as 31 out of 38 U.S. states analyzed in 2012 applied assumptions on a forward looking basis.[40]
- The Board's retained consultant, Concentric Energy Advisors, advocated against the retroactive application of input assumptions during the development of the 2012 DSM Guidelines.[41]

Enbridge continues to see the retroactive application of assumptions as a significant risk to its DSM business with very few, if any, opportunities for mitigation. The Company strongly advocates the application of assumption changes on a forward-looking basis.

2.7 PERSISTENCE

RELEVANT SECTIONS:

"The natural gas utilities should provide a rationale for the persistence factor it has determined appropriate for each of its programs."[42]

ENBRIDGE RESPONSE:

Enbridge cautions that the quantification of persistence involves an inherent balance between a perceived increase in accuracy and potentially significant increases in costs.

[37] Zuckerman, Julia; Dearson, Jeff; Chandrashekeran, Sangeetha. (2013) "Rewarding Efficiency: Lessons from California's Shareholder Incentive," *Climate Policy Initiative, University of Melbourne,* 2013 International Energy Program Evaluation Conference, Chicago, p.4

[38] California Public Utilities Commission (2010) "Decision Regarding the Risk/Reward Incentive Mechanism Earnings True-Up for 2006-2008," Decision 10-12-049, Dec. 16th

[39] Massachusetts Department of Public Utilities.(2012) *Docket 11-120 Order*, Aug. 10th, p.15

[40] Kushler, Martin; Nowak, Seth; White, Patti (2012) "A National Survey of State Policies and Practices for the Evaluation of Ratepayer-Funded Energy Efficiency Programs", *ACEEE*, Report U122, Feb. p.62-63

[41] EB-2008-0346, Concentric responses to stakeholder questions, Question 52 (EGDI Question 9), May 20th, 2010, p.19

[42] Draft Filing Guidelines to the Demand Side Management Framework for Natural Gas Distributors," EB-2014-0134 p. 28

To the degree that persistence is investigated in great detail it should be considered in light of competing evaluation priorities. The Company also wishes to ensure that the use of persistence factors does not effectively double count reductions to DSM results.

2.8 USE OF METER DATA TO ESTABLISH RESULTS

RELEVANT SECTIONS:

> *"The Board expects… the implementation of DSM programs that are evidence-based and rely on detailed customer data in order to clear show a customer has lowered consumption levels over the course of different billing periods (i.e., performance- based programs)…"*[43]
>
> *"…the preference to determine LRAM and shareholder incentive amounts should be to use measured actual results, instead of input assumptions."*[44]

ENBRIDGE RESPONSE:

Enbridge is not opposed to the exploration of program types which use actual metered data to measure DSM results, having led this effort to date through its Run it Right program. However, the Company does not believe there should be an expectation that this type of measurement can or should apply to a large portion of gas utility DSM portfolios without comprehensive study of the implications. Enbridge takes this position for two reasons.

First, the Company finds the complexity and uncertainty inherent to this type of DSM measurement concerning. This type of measurement includes a great deal of 'noise' resulting from the dozens of variables influencing any building's energy use. Changes in occupancy, changes in hours of operation, changes in tenants, changes in business practices, unexpected equipment failures, and renovation plans not shared with the utility are only a few of the variables that gas utilities cannot reasonably ask their customers to inform them of despite their significant impacts on natural gas consumption. This creates a situation, as it did in Enbridge's Run it Right program in 2013, where a building shows increased gas usage despite participation in a viable DSM program. One solution to this problem is to sub-meter all natural gas end-uses in a building. Unfortunately the nature of natural gas technology makes sub-metering much more invasive and considerably more expensive than solutions available for electricity, calling into question the merit of such action. The other solution is to normalize for the known variables influencing natural gas usage through engineering estimates and input assumptions. Said another way, in order to properly measure DSM at the meter deemed savings or savings calculations must be used anyway.

The second reason informing Enbridge's position is that the use of metered data to measure DSM results will almost always rely on engineering estimates and input

[43] Draft Report of the Board. "Demand Side Management Framework for Natural Gas Distributors," EB-2014-0134. p. 18-19

[44] Draft Filing Guidelines to the Demand Side Management Framework for Natural Gas DistributorsEB-2014-0134 p. 11.

assumptions in some fashion. Each of the variables identified above can increase natural gas consumption, creating the appearance that a gas utility's DSM program did not have a positive impact on the customer's energy usage. Engineering estimates and input assumptions can be used to separate these variable impacts from the positive impact of DSM, however the consistent application of engineering estimates to account for variables as wide ranging as building occupancy and lighting retrofits is a complex and contentious affair. Further, if the measurement of DSM results at the meter remains reliant on such estimates and assumptions what was the value of meter measurement in the first place? This issue becomes even more complex when baseline assumptions are considered, since utilities are expected to claim only the difference between an efficient piece of capital equipment installed and the level of efficiency that would have otherwise been installed in the absence of DSM influence. Measuring at the meter without the incorporation of estimates or assumptions could reward the utility for the difference between the new piece of equipment and the outgoing equipment replaced, with wide ranging effects on everything from cost-effectiveness screening to DSM targets.

For these reasons Enbridge strongly believes that engineering estimates and deemed savings values continue to be acceptable methods for quantifying DSM impacts. It should also be noted that the use of deemed saving values specifically have positive implications for customer convenience, simplicity and ultimately program results. To the degree that measurement of results using actual metered data infringes upon these customers benefits it stands to reason that negative impacts on results could ensue.

Should the Board wish to move toward using metered results and data solutions for DSM programs the Company would require consideration of automated metering infrastructure (also known as 'smart meters' in the electricity sector) for its entire customer base.

2.9 ELECTRICITY CDM COORDINATION AND INTEGRATION

RELEVANT SECTIONS:

> *"Where appropriate, coordinate and integrate DSM and electricity CDM efforts to achieve efficiencies."*[45]
>
> *"…the Board is of the view that gas utilities should be rewarded more heavily for results that address…co-ordination and integration with electricity CDM activities…"*[46]

[45] Draft Report of the Board. "Demand Side Management Framework for Natural Gas Distributors," EB-2014-0134 p. 9.
[46] Draft Report of the Board. "Demand Side Management Framework for Natural Gas Distributors," EB-2014-0134, p.30,

> *"For electricity CDM and natural gas DSM programs jointly delivered with rate-regulated electricity distributors, all the natural gas savings should be attributed to rate-regulated natural gas utilities and vice versa for electricity savings."*[47]

ENBRIDGE RESPONSE:

Enbridge is supportive of the Board's direction regarding coordination and integration with electricity CDM in all of the sections referenced above. Specifically, the Company agrees that some areas and sectors will see greater benefit from coordination and integration than others and the utilities will be well served with the flexibility to respond in these areas.

Further to the Value Multiplier proposal put forth in Section 1.3, Enbridge also agrees that added incentives for achieving the strategic priorities of coordination and integration with electricity CDM are appropriate. Given that coordination and integration with electricity CDM programs may increase costs or effort in certain circumstances, this incentive is important as the Board's desire is surely to encourage this activity rather than effectively penalize the utilities for engaging in it. Lastly, the savings attribution methodology decided upon in the 2006 Generic Proceeding and continued in 2012 remains appropriate. Any additional barriers (perceived or otherwise) to collaboration between gas and electric utilities would be counter to what is intended.

[47] Draft Filing Guidelines to the Demand Side Management Framework for Natural Gas Distributors, p. 26, Draft DSM Filing Guidelines