EB-2014-0273

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by Union Gas Limited for an order or orders approving the final balances and for clearance of certain Demand Side Management Variance Accounts into rates, within the next available QRAM following the OEB's approval.

BEFORE: Marika Hare
Presiding Member

Emad Elsayed
Member

DECISION AND ORDER

June 4, 2015

Union Gas Limited (Union) filed an application with the Ontario Energy Board (OEB) dated December 9, 2014 under section 36 of the *Ontario Energy Board Act*, *1998*, S.O. 1998, c.15, (Schedule B), seeking approval to clear the balances in certain 2013 Demand Side Management (DSM) deferral and variance accounts. A corrected application and evidence was filed on January 28, 2015. Union is seeking the final disposition of the balances in these accounts into rates within the next available Quarterly Rate Adjustment Mechanism (QRAM) following the OEB's approval.

The accounts which are the subject of the application and the balances recorded are as follows:

DSM Incentive Deferral Account	$7,784,000 (to shareholder)
Lost Revenue Adjustment Mechanism Variance Account	$1,311,000 (to shareholder)

DSM Variance Account	$1,198,000 (to shareholder)

The net balance of the DSM Accounts is $10,293,000 to be collected from ratepayers.

For the reasons set out below, the OEB approves the final balances in the 2013 DSM Deferral and Variance Accounts, as submitted. The OEB also approves the disposition of the balances in these accounts and inclusion into rates within Union's next available QRAM application.

Background

The deferral and variance accounts for which Union seeks approval and disposition in this application are related to Union's 2013 DSM activities. The 2013 DSM activities were for the second year of Union's 2012-2014 multi-year DSM plan (EB-2011-0327) and for the first year of Union's 2013-2014 DSM plan for large volume customers (EB-2012-0337) which were premised on the 2011 DSM Guidelines (EB-2008-0346).

The DSM Guidelines and Union's 2012-2014 DSM plan outlined the required process Union should undertake with respect to stakeholder consultation and monitoring and evaluation for each year of the plan. This included the election of Union's Audit Committee and the continuation of a joint Technical Evaluation Committee with Enbridge Gas Distribution Inc. (Enbridge). Union's Audit Committee for 2013 included the Consumers Council of Canada, Canadian Manufacturers and Exporters (CME) and Green Energy Coalition.

With input from the Technical Evaluation Committee, Union retained Michaels Energy, Bryon Landry & Associates and Diamond Engineering as Custom Project Savings Verification Contractors to evaluate its 2013 custom project savings. Beslin Communications Group and Seeline Group were retained to conduct impact evaluations for Union's residential and low-income programs. The impact evaluations were filed with the 2013 DSM results in accordance with Section 15 of the DSM Guidelines.

Consistent with the DSM Guidelines, Union consulted with the Audit Committee on the terms of reference and the work plan for the audit of the 2013 DSM results. Union prepared its 2013 Draft Evaluation Report which included the results from the review of custom projects by the Custom Project Savings Verification Contractors and the Audit Committee.

Union retained Evergreen Economics as the 2013 DSM Auditor who worked with SBW Consulting Inc. and PWP Inc. to provide an independent opinion on the reasonableness of the deferral and variance account calculations. After the completion of the verification and audit processes, Union's Audit Committee reached consensus on Union's 2013 DSM results.

The OEB's written hearing process included interrogatories and submissions. The Association of Power Producers of Ontario (APPrO), Building Owners and Managers Association, Greater Toronto (BOMA), CME, London Property Management Association (LPMA), and Ontario Greenhouse Vegetable Growers (OGVG) applied for and were granted intervenor status and cost eligibility.

Main Issues and OEB Findings

Submissions were received from LPMA, OGVG and OEB staff. As highlighted by Union in its reply submission, both LPMA and OGVG submissions focused on suggested refinements for Union's applications in future years but did not seek changes to the current application. The OEB will not comment further on these suggestions, except to indicate to Union that the OEB agrees that these suggestions should be examined in greater detail in Union's long-term DSM proposal. This Decision focuses on issues raised by OEB staff. These issues were as follows:

- Free Ridership and Payback Period
- Base Case
- Persistence of Savings

Free Ridership and Payback Period

In its written submission, OEB staff presented results of studies which relate market adoption of energy efficient measures to payback periods. OEB staff suggested that, according to these studies, more than 80% of commercial and industrial customers will have undertaken DSM measures without the influence of a utility's financial incentive if the technology's payback period is shorter than two years.

While OEB staff acknowledged that the payback period is not the only criterion used in the customer's investment decisions, it suggested that empirical evidence indicated that payback analysis could play a significant role in energy efficiency investment decisions.

OEB staff submitted that Union's 2012-2014 DSM plan used a free ridership rate of 54% which was established by Summit Blue's 2008 study for Union and Enbridge. Although free ridership studies were not undertaken during the first two years of the DSM Framework, a review was done by Navigant in 2013 confirming that the free ridership rate of 54% for Union's custom projects was significant and within the range of other jurisdictions. As a result, the free ridership rate of 54% was used in calculating program savings for commercial, industrial and large volume custom projects based on Summit Blue's 2008 study.

However, according to OEB staff, a significant number of large volume custom projects had payback periods of less than a year which suggests that incentives may have been provided to free riders despite the fact that the 54% free ridership rate was already applied to reduce the cumulative savings claimed.

OEB staff also submitted that the free ridership rate for residential and low-income custom projects was not supported by empirical evidence and that the savings in low-income custom projects may be overestimated. OEB staff stated that the 5% free ridership rate for low-income custom projects does not appear to reflect the potential free riding of incentives for projects with paybacks ranging from 55 to over 400 years. According to OEB staff, given that the payback periods are so far into the future for these projects, the investment decisions for the majority of low-income custom projects were clearly not driven by natural gas savings but by other factors.

OEB staff concluded that, based on the observed behaviour of customers confirmed in the payback acceptance curves, about 80% and 35% of the audited large volume custom and low-income custom savings, respectively, could have happened without the provision of any financial incentives.

Therefore, OEB staff recommended that the savings from large volume custom projects be reduced by about 25% in addition to the 54% free ridership included in the results.

OEB staff also recommended that the savings from low-income custom projects be reduced by 30% in addition to the 5% free ridership included in the results.

Finally, OEB staff confirmed the need to conduct an updated free ridership study and recommended that a free ridership study be conducted for all custom projects and other major programs to have free ridership assumptions used for the 2014 results.

In its reply arguments, Union submitted that OEB's staff's argument disregards the fact that, as a result of the audit process, adjustments have already been made to imputed levels of free ridership and the results achieved. Union further argued that the OEB staff's submission downplays the significance of the fact that the audit process has been successfully completed.

Union stated that the free ridership rate underlying the balances is applied consistently to all customers and all claimed DSM savings across Union's entire custom DSM portfolio. In this application, the free ridership rate applied to Union's commercial and commercial large volume programs is based on empirical measurement of Union's project-specific free ridership findings as calculated in the Custom Projects Attribution study performed by Summit Blue in 2008.

Union further stated that its 2013 Auditor, Evergreen Economics, stated in the Auditor's Report that "going through the sample of evaluated projects and removing savings for these projects that might be considered free riders would result in an over-correction for free ridership, as free ridership adjustment is already being applied to the entire sample of projects. Since the free ridership adjustment is being applied for the entire group, no additional project-level adjustment is needed."

Regarding the OEB staff's payback period argument, Union urged the OEB to reject this analysis as it was not before the Audit Committee in this application and was not subjected to the scrutiny of the Audit Committee process.

The OEB agrees with Union that the additional reduction in savings proposed by OEB staff is based on evidence that has not been tested in this proceeding. The OEB finds that adjustments have already been made to the free ridership rate through the audit process. Therefore, the OEB will not reduce the savings claimed by Union for large volume custom projects or low-income custom projects. However, the OEB agrees that an updated free ridership study should be completed as soon as possible, as recommended in the Audit Report[1] to support free ridership estimates in the future.

Base Case

Based on the Auditor's assessment of the appropriateness of the base case for Union's custom projects, OEB staff did not propose adjustments to the base case savings. However, in response to the Auditor's discovery of the lack of base case documentation for 73% of the audited low-income custom projects, OEB staff suggested that the Auditor be asked to explain any base case inadequacies in prospective audits and that a minimum threshold be established setting the required level of a project's base case documentation to be considered adequate for the 2014 results.

Also, consistent with the OEB's Decision and Order for Enbridge's 2013 clearance of DSM accounts (EB-2014-0277), OEB staff suggested that Union collaborate with Enbridge in the commercial boiler efficiency base case study to develop up-to-date assumptions for use in the 2014 results.

In Union's reply submission, it stated that the commercial boiler efficiency base case study had recently been deemed a TEC priority and that a process was being put in place to determine scope of work and timelines. Union submitted that the study could take up to 12 months to complete and, therefore, could not be applied to the 2014 results.

As stated in the Enbridge decision, the OEB is supportive of the proposed boiler efficiency base case study in 2015 to be conducted in co-operation with Enbridge with the findings being incorporated in the evaluation of the 2014 results. The OEB is also supportive of the OEB staff suggestion regarding a minimum threshold for project base case documentation in future audits.

Persistence of Savings

OEB staff submitted that persistence of savings may not have been adequately considered during the delivery of Union's custom programs, nor at the time the cumulative savings were calculated for the custom projects. The results of a

[1] EB-2014-0273 Application Exhibit 2, Tab 2, Page 9

persistence study would determine whether any persistence adjustment to the project savings is warranted on a go-forward basis.

OEB staff recommended that Union, in cooperation with Enbridge, consider undertaking a formal persistence study of savings in the evaluation of the 2014 programs.

In its reply submission, Union stated that persistence is taken into account, and that changes are applied to individual projects when they are identified in the program year. Where adjustments are identified after the fact within the project sample through the Custom Project Savings Verification process, they are reflected in the overall realization rate, and applied to the overall custom project portfolio.

Regarding OEB staff's suggestion that a formal persistence study is undertaken with Enbridge, Union stated that to-date, the Technical Evaluation Committee has not prioritized a persistence savings study. Union stated its intention to raise the issue of a persistence study as a priority consideration, for budget allocation purposes, as part of Union's 2015 evaluation plan. The study will not be applied to the 2014 results, but once the study is complete, any adjustments will be applied on a go-forward basis.

The OEB agrees that a formal persistence study should be given priority to provide support for the persistence of savings associated with large custom commercial and industrial DSM programs.

THE BOARD ORDERS THAT:

Union is granted approval to clear the amounts in its 2013 DSM Deferral and Variance accounts. A summary of the three accounts proposed for clearing and approved by the OEB are:

DSM Incentive Deferral Account	$7,784,000 (to shareholder)
Lost Revenue Adjustment Mechanism Variance Account	$1,311,000 (to shareholder)
DSM Variance Account	$1,198,000 (to shareholder)
TOTAL	**$10,293,000 (to shareholder)**

The clearance of the balances shall be processed within Union's next available QRAM application.

Cost Awards

The OEB will issue a separate decision on cost awards once the following steps are completed:

1. Intervenors shall file with the OEB and forward to Union their respective cost claims, if any, by **June 15, 2015.**

2. Union shall file with the OEB and forward to intervenors any objections to the claimed costs by **June 22, 2015.**

3. Intervenors shall file with the OEB and forward to Union any responses to any objections for cost claims by **June 29, 2015.**

4. Union shall pay the OEB's costs incidental to this proceeding upon receipt of the OEB's invoice.

All filings to the OEB must quote the file number, EB-2014-0273, and be made electronically through the OEB's web portal at https://www.pes.ontarioenergyboard.ca/eservice/, in searchable / unrestricted PDF format. Two paper copies must also be filed at the OEB's address provided below. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at http://www.ontarioenergyboard.ca/OEB/Industry. If the web portal is not available parties may email their documents to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

All communications should be directed to the attention of the Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date.

ADDRESS

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E-mail: boardsec@ontarioenergyboard.ca
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DATED at Toronto, June 4, 2015

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary