DSM DEFERRAL AND VARIANCE ACCOUNTS

1. The Ontario Energy Board's (the "Board") EB-2014-0134, *Report of the Board: Demand Side Management Framework for Natural Gas Distributors (2015-2020)* ("DSM Framework") and *Filing Guidelines to the Demand Side Management Framework for Natural Gas Distributors (2015-2020*) ("DSM Filing Guidelines") provides that, consistent with past practices, various Demand Side Management ("DSM") variance and deferral accounts will be established and used during the term of the 2015 to 2020 Multi-Year DSM Plan. The Board provides specifically for the following deferral and variance accounts in the Filing Guidelines:

    - DSMVA (Section 11.2)
    - LRAMVA (Section 11.3)
    - DSMIDA (Section 11.4)
    - Carbon Dioxide Offset Credit Deferral Account (Section 11.5)

2. Under the new Framework, Enbridge believes that it is appropriate to apply for the establishment of three further deferral / variance accounts to provide an administrative mechanism to deal with the tracking, recording and use of certain funds. The first of the three new accounts which Enbridge proposes be established is the Cost-Efficiency Incentive Deferral Account ("DSMCEIDA"). This account will be used to record, roll forward and access any remaining approved DSM budget from one year into the following year where Enbridge is able to meet its overall annual natural gas savings target. The second of the proposed new accounts is the DSM Participant Incentive Deferral Account ("DSMPIDA") which will be used to record the variance between actual incentive

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payments made, and the budgeted incentive amounts included within the respective year's DSM budget, to participants enrolled in multi-year programs. Finally, the Company proposes the establishment of a DSM Information Technology Capital Spending Variance Account ("DSMITCSVA") which, beginning in 2016, will record the revenue requirement implications of the Company incurring the capital costs of undertaking the replacement and upgrading to its current DSM IT systems. Each of these proposed new accounts is described in greater detail below.

Cost-Efficiency Incentive Deferral Account

3. At page 24 of the Framework, the Board states:

> Cost-Efficiency Incentive
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> The Board will also make a cost-efficiency incentive available to the gas utilities. In the event that a gas utility is able to meet its overall annual natural gas savings target, the gas utility may choose to roll-forward and use any remaining approved DSM budget amounts in the following year with no subsequent impact on the approved targets for the following year. The funds carried forward would be in addition to the approved budget level for the following year and enable the gas utility to work towards achieving the following year's annual target with the benefit of incremental funds. This is a significant benefit, as the gas utilities are afforded greater flexibility and resources to achieve established target levels if they can efficiently product results.
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> The key with a cost-efficiency incentive is to ensure it works in tandem with the performance incentive, as opposed to conflicting with the performance incentive. The main goal of administering and delivering energy efficiency programs is to achieve energy efficiency gains and energy savings in the market place. It is also important to achieve this goal by using the least amount of ratepayer dollars. The Board is of the view that the shareholder incentive should be structured so that the gas utilities' main incentive is related to achieving its annual targets. In the event the gas utility does not achieve its annual target, it is unable to carry forward any unspent DSM budget amounts into the following year. The Board will consider what, if anything, should be done with "unused" funds at the end of 2020.

4. Enbridge believes that it is appropriate to establish a new deferral account to record any amounts which become eligible to roll forward into a future year in accordance with the cost-efficiency incentive. Where the Company has achieved its overall annual natural gas savings target on a pre-audit basis and the Company decides to roll forward any remaining approved DSM budget, it will record this amount in the DSMCEIDA. The Company will then seek Board approval for the amount recorded in the account as part of the annual clearance of DSM accounts application. This approved amount would then be available to the Company to use towards achieving the following year's annual target with the benefit of the additional incremental funds. These incremental funds would, in effect, become part of the approved budget for the following year.

5. Enbridge suggests that a DSMCEIDA be established for each of the years 2015 to 2020. As stated in the Framework, the Board will consider what should be done with any "unused" funds which are recorded in the proposed DSMCEIDA at the end of the Multi-Year Plan, which is presumed to be in or around 2021.

DSM Participant Incentive Deferral Account

6. Enbridge also requests that a DSMPIDA be established for each of the years 2015 through 2020, or one DSMPIDA account updated annually. This deferral account will be used to record the variance in incentive payments earned and paid to DSM participants, versus the budgeted annual amounts. Actual payments below the budgeted amount would be returned to ratepayers, whereas payments in excess of the budgeted amount would be collected from ratepayers.

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Need for the Deferral Account

7. In the Company's previous Multi-Year DSM Plan filing for 2012 to 2014 (EB-2011-0295), the Board approved a settlement agreement ("Settlement Agreement") which contemplated, as part of the Company's DSM market transformation portfolio in 2012, the roll out of two new Savings by Design ("SBD") offers. These offers were developed to address lost opportunities in the residential and commercial new construction sectors. Both offers focused on working with developers and builders to develop a capability within their companies to design and build advanced energy efficient homes and buildings beyond that required by the Ontario Building Code ("OBC").

8. The goal of the SBD offers is to encourage the construction of residential and commercial units which exceed OBC standards. The objective is also to use the Integrated Design Process ("IDP") to demonstrate to builders the potential for achieving higher levels of energy and environmental performance through the application of alternate design approaches. One of the incentives used to encourage the construction of such new units is the provision of a financial performance incentive to those builders and developers that meet the standards required as outlined in their commitment agreement. It was recognized from the outset that there would necessarily be a lag time between the participation in the IDP and the physical construction of the units, which is a prerequisite to a participant earning the available incentive.

9. Under the 2012 to 2014 Multi-Year DSM Plan, performance incentives were available for residential and commercial builders and developers that participate in the IDP and achieve the required energy efficiency levels for each new unit

constructed, subject to certain limits in the third and fifth years, respectively, following their enrollment. With the SBD offers having only started in 2012, incentive payments in each of 2012, 2013, and 2014 did not pose issues for the Company and were managed with the budgets for these years. The Company, however, currently estimates that as of December 31, 2014, approximately $4.7 million in incentives remains potentially owing to participants that enrolled and participated in the Residential SBD and $2.2 million for the Commercial SBD offers during the years 2012 through 2014, should such participants complete the maximum number of qualifying units in the years 2015 and beyond.

10. Enbridge believes that its estimate as at the end of 2015, of the incentives that may become payable in future years, will be even higher given the continued growth of the SBD offers. A payment of incentive amounts is forecast and included in the budget, for each year, but the actual amount of incentive payout required may be quite different than forecast for two primary reasons. First, as part of the program, builders have up to three years for residential or five years for commercial, to build their projects to be eligible for the incentive. There is no way for Enbridge to know for certain when a builder will actually complete the build within this timeframe, and therefore the budget may be inadequate, or too much. Second, the DSM business in Ontario has always encouraged and rewarded utilities for overachieving the DSM targets and goals. To the extent that the Company may over (or under) achieve its targets, the proposed budget may under (or over) collect relative to the actual incentive payments to which participants are entitled. As a result, Enbridge believes that it is appropriate to make regulatory provision for the fact that monies are included in a current year's budget which may be different from incentive payments actually required.

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11. Enbridge is proposing as part of its 2015-2020 Multi-Year DSM Plan to continue with its SBD offers. It is also proposing a new Low Income Construction Design offer which will be similar to the SBD offers, but directed at buildings intended to be owned or occupied by low-income individuals and families. There is also the possibility that other offers will be introduced during the 2015 to 2020 Multi-Year DSM Plan that will similarly provide eligibility for financial incentives to participants in years beyond the original year of a participant's enrollment. Accordingly, the Company is proposing that the DSMPIDA be available for any offer where financial incentives are payable beyond the original year of enrollment by the participant.

<u>The Proposal</u>

12. Enbridge proposes that the Board approve the establishment of six DSM deferral accounts, being the DSMPIDA for each of the years 2015 through 2020, or a single account that is updated for each year of the plan. Enbridge proposes that these accounts be established for the purposes of tracking and recording the incentive amounts which the Company actually pays out to participants in Board-approved DSM offers where the budget may differ. This may include either debits or credits to the account in the case that the budget over or under forecasts amounts to be paid out. Enbridge is not proposing to pre-collect the entire amount of incentive payments that will be required as of the beginning of 2015. Currently this includes the residential and commercial SBD offers. Once Board approval is received, the DSMPIDA could be available for use in respect of the new Low Income Construction Design offer, which Enbridge is proposing as part of its 2015 – 2020 Multi-Year DSM Plan.

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The DSMPIDA Methodology

13. The Company proposes that the DSMPIDA only be available in respect of offers approved by the Board. The Company will also seek approval from the Board for the methodology it will use to track, record, pay and clear to rates. The Company proposes the methodology set out below in respect of the residential and commercial SBD offers.

14. The Company will record in the DSMPIDA, for each of the years 2015 through 2020, the variance in the incentive amounts it actually pays out to program participants (in the year of enrollment, or years following enrollment), and the approved budget for that year. Beginning with the end of 2015, the Company will, at the conclusion of each year, calculate the amount that it actually paid out during the year and compare this to the budget set in rates. If the Company has overpaid eligible incentives relative to the budget, it will collect from ratepayers the difference through the annual clearance of accounts. If the Company has underpaid eligible incentives relative to the budget, it will reimburse ratepayers the difference through the annual clearance of accounts

15. The amount recorded in the DSMPIDA will not include any amounts which the Company may wish to access from the DSMVA in respect of performance in excess of the 100% target. The DSMPIDA will also not affect the methodology nor the eligibility of the Company to claim a DSMIDA.

DSM Information Technology Capital Spending Variance Account

16. The evidence in this Application confirms that the current DSM IT system upon which the tracking, monitoring, evaluation and verification of DSM program offers

and results is dependent is at the end of its useful life and needs to be replaced. The forecast capital cost for this work is approximately $5 million, most of which will be incurred in 2015 and 2016.

17. As it is imperative that the Company ensure that the installation and integration of the replacement system does not negatively impact ongoing DSM activities, the Company is currently preparing a plan which will both provide further details of system requirements and the timing of replacement and integration efforts. Enbridge hopes this plan will be filed during this proceeding. While this plan will contain greater granularity and likely more detailed cost estimates, there will remain some uncertainty as to costs until the preferred application's supplier(s) is selected. The Company has proposed, at Exhibit B, Tab 1, Schedule 2, that its DSM budgets for each of the years 2016 through 2020 include a $1 million annual DSM IT charge back. It is proposed that this amount be embedded in rates for each of these years. In consequence of this, the Company is proposing the establishment of a variance account (the DSMITCSVA) which will record the revenue requirement implications of the capital spending on the replacement of the DSM IT systems. The account would record the depreciation, interest, taxes and return on equity costs based on the actual capital cost of the replacement IT system. These amounts will then be brought forward for review by the Board as part of the annual DSM accounts clearance application, and any variance from the amounts embedded in rates will be cleared through to rates as either a credit or debit.

18. As the replacement of the DSM IT systems is necessitated by the demands and rigours of the Framework and the resulting significant expansion of the

Company's DSM activities, Enbridge is proposing that the capital costs be recovered during the term of the Multi-Year DSM Plan. In this way, those customers who benefit from the expanded DSM activities will pay for the costs of the replacement IT system. As well, given that the costs relate to the acquisition and integration of new software, recovery over this period is consistent with applicable rates of depreciation for software.

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