uniongas
A Spectra Energy Company

August 27, 2015

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

RE: EB-2015-0029 – Union Gas Limited ("Union") – 2015-2020 DSM Plan - Undertaking Responses

Dear Ms. Walli,

Please find attached Union's responses to the following undertakings received in the above case: J1.4; J1.9; J2.4; J3.6; J3.12; J3.13; J3.15; J3.16, and J4.2.

If you have any questions with respect to this submission please contact me at 519-436-5334.

Yours truly,

[*original signed by*]

Vanessa Innis
Manager, Regulatory Initiatives

Encl.

cc: Lawrie Gluck, Board Staff
Alex Smith, Torys
All Intervenors (EB-2015-0029)

UNION GAS LIMITED

Undertaking of Ms. Lynch
To Ms. Frank

To inform how accurate the sendout model would have been if inflation and commodity type adjustments have been applied.

Response:

Union has revised the Avoided Gas Costs to 2020. The results are included in Table 1.

Table 1

	Gas Avoided Costs ($/m3)					
	Residential/Commercial				Industrial	
	Baseload		Weather Sensitive			
	Rate As Filed (1)	Rate Revised	Rate As Filed (1)	Rate Revised	Rate As Filed (1)	Rate Revised
2015	0.21378	0.21378	0.22071	0.22071	0.20537	0.20537
2016	0.19684	0.19684	0.20449	0.20449	0.20114	0.20114
2017	0.19620	0.19620	0.20266	0.20266	0.19798	0.19798
2018	0.20730	0.20173	0.21387	0.21567	0.20911	0.19507
2019	0.23174	0.20624	0.23841	0.22046	0.23358	0.19974
2020	0.25035	0.21072	0.25714	0.22522	0.25222	0.20439

(1) EB-2015-0029, Exhibit A, Tab 3, Appendix F.

Union updated the SENDOUT model used to calculate the 2015 through 2017 avoided gas costs for DSM demands.

Union completed the SENDOUT run for 2018 but was unable to complete the runs for 2019 and 2020 as certain inputs were not readily available (for example, Union was unable to generate supply pricing for 2020 using the same underlying data as basis information for the various Union supply points was not available beyond 2019).

To estimate 2019 avoided costs Union adjusted the 2018 avoided gas cost based on the proportional change in the underlying avoided commodity costs (Dawn pricing increased 1.8% in 2019 and Empress pricing increased 4.3% in 2019). To estimate 2020 pricing Union used the 2019 avoided cost and fixed the commodity price increase at 2019 levels (Dawn – 1.8%; Empress – 4.3%).

The revised gas costs are lower from 2018 through 2020 due to the removal of the of the long term commodity price adjustment factor which averaged an annual 8% increase in commodity prices versus the commodity price increases in the SENDOUT model which averaged a 2% increase from 2018 through 2020.

UNION GAS LIMITED

Undertaking of Ms. Brooks
To Mr. Gardner

To provide numbers with caveats around how those numbers were arrived at.

Response:

Approximately 44% of the total low income multi-family opportunity (social housing and private market housing) is assumed to be from the private market. Union developed its total market opportunity (social housing and private market housing) using the assumptions outlined in Exhibit A, Tab 3, Appendix A, pages 92-93 and attachments included in Exhibit B.T2.Union.GEC.24 and Exhibit B.T2.Union.GEC.27.

UNION GAS LIMITED

Undertaking of Mr. Dibaji
To Ms. Girvan

To provide the element of the commercial budget that's being funded through Rate 1 and M1 and that residential customers are also paying for.

Response:

The response below is with regards to Union's 2016 DSM program budget allocation. While the analysis focuses on Residential and Commercial/Industrial program budget recovery in rate classes M1 and 01, these rate classes also recover costs from various other programs and budget elements such as Performance-Based program budget, Market Transformation program budget, Low Income program budget and inflation.

Commercial Budget Recovery in Rates

The total cost of the commercial budget in Rate 01 is $1.042 million. Of this amount, approximately $0.770 million (or 74%) is recovered from residential customers and $0.272 million (or 26%) from commercial/industrial customers.

The total cost of the commercial budget in Rate M1 is $3.033 million. Of this amount, approximately $2.212 million (or 73%) is recovered from residential customers and $0.821 million (or 27%) from commercial/industrial customers.

Residential Budget Recovery in Rates

The total cost of the residential budget in Rate 01 is $3.807 million. Of this amount, approximately $2.813 million (or 74%) is recovered from residential customers and $0.994 million (or 26%) from commercial/industrial customers.

The total cost of the residential budget in Rate M1 is $11.421 million. Of this amount, approximately $8.330 million (or 73%) is recovered from residential customers and $3.091 million (or 27%) from commercial/industrial customers.

Please also see Attachment 1.

UNION GAS LIMITED
2016 Program Budget Costs Recovered in Small Volume General Service Rates from Residential and Commercial/Industrial Customers

Line No.	Particulars	Residential (a)	Comm/Ind (b)	Total (c)	
	Rate 01				
1	Annual Volume (10^3m^3)	685,599	242,323	927,922	(1)
2	Program Costs - Commercial ($000's)	770	272	1,042	(2)
3	Program Costs - Residential ($000's)	2,813	994	3,807	(3)
4	Program Costs (%)	74%	26%		
	Rate M1				
5	Annual Volume (10^3m^3)	2,130,836	790,680	2,921,516	(1)
6	Program Costs - Commercial ($000's)	2,212	821	3,033	(4)
7	Program Costs - Residential ($000's)	8,330	3,091	11,421	(5)
8	Program Costs (%)	73%	27%		

Notes:
(1) EB-2014-0271 Rate Order Working Papers, Schedule 4.
(2) Attachment 1, p.2, column (b), line 1.
(3) Attachment 1, p.2, column (a), line 1.
(4) Attachment 1, p.2, column (b), line 6.
(5) Attachment 1, p.2, column (a), line 6.

UNION GAS LIMITED
2016 Program Budget

Line No.	Particulars ($000s)	Residential Program and Portfolio Budget Allocation	Commercial / Industrial Program and Portfolio Budget Allocation	Low Income Program and Portfolio Budget Allocation	Performance Based Program and Portfolio Budget Allocation	Large Volume Program and Portfolio Budget Allocation	Market Transformation Program and Portfolio Budget Allocation	Inflation	Program Total
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	Union North								
1	Rate 01	3,807	1,042	3,304	6	0	327	143	8,628
2	Rate 10	0	1,898	450	36	0	0	40	2,424
3	Rate 20	0	1,611	276	71	0	0	33	1,990
4	Rate 100	0	0	292	0	293	0	10	595
5	Total Union North	3,807	4,550	4,322	112	293	327	225	13,636
	Union South								
6	Rate M1	11,421	3,033	7,356	21	0	980	383	23,194
7	Rate M2	0	7,522	965	143	0	0	145	8,775
8	Rate M4	0	3,092	237	135	0	0	58	3,523
9	Rate M5A	0	2,121	252	93	0	0	41	2,507
10	Rate M7	0	2,140	80	94	0	0	39	2,352
11	Rate T1	0	1,590	204	89	0	0	32	1,915
12	Rate T2	0	0	812	0	517	0	22	1,351
13	Total Union South	11,421	19,498	9,908	575	517	980	721	43,618
14	Total Union (line 5 + line 13)	15,228	24,048	14,230	687	809	1,306	946	57,254

UNION GAS LIMITED

Undertaking of Ms. Brooks
To Mr. Shepherd

(A) To provide a chart of comparable incentives for various factors throughout North America; and (B) to advise the uplift in M-Cubeds due to the increase in incentives.

Response:

A chart of comparable incentives from other jurisdictions for Commercial/Industrial prescriptive measures can be found in Exhibit B.T2.Union.GEC.26, Attachment 6.

Union expects the proposed increased incentive structure to drive approximately 50 million incremental cumulative m^3s in 2016, relative to 2014 results which did not include the increased incentives. Union expects the offering's costs to increase by approximately $1.7 million due to the increased incentive structure.

UNION GAS LIMITED

Undertaking of Mr. Tetreault
To Mr. Shepherd

To update the spreadsheet on page 73 of the energy tools study with 2014 actual data.

Response:

Union has corrected a minor transposition error in the customer count of the 2010 actuals table provided by SEC in its compendium. Please see Attachment 1 for a black-lined version of the 2010 actuals information.

Please see Attachment 2 for 2014 actuals.

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Exhibit J3.12
Attachment 1

UNION GAS LIMITED
Small Volume General Service Rate Class Composition
2010 Actual Data per energytools llc Study
SEC Table: Corrrected

Union Residential GS Customers 2010

Class	*Category*	*#*	*Volumes ('000)*	*Average*
M1	Up to 5,000	898,064	1,949,673	2,171
	5,000 to 50,000	17,120	116,485	6,804
01	Up to 5,000	267,742	578,531	2,161
	5,000 to 50,000	5,221	35,746	6,846
Totals	Up to 5,000	1,165,806	2,528,204	2,169
	5,000 to 50,000	22,341	152,230	6,814
	Aggregate	**1,188,147**	**2,680,434**	**2,256**
	Percent	**92%**	**76%**	

Union C/I GS Customers 2010

Class	*Category*	*#*	*Volumes ('000)*	*Average*
M1	Up to 5,000	43,673	94,211	2,157
	5,000 to 50,000	33,727	519,190	15,394
01	Up to 5,000	13,504	30,840	2,284
	5,000 to 50,000	12,942	192,279	14,857
Totals	Up to 5,000	57,177	125,052	2,187
	5,000 to 50,000	46,669	711,469	15,245
	Aggregate	**103,846**	**836,521**	**8,055**
	Percent	**8%**	**24%**	

UNION GAS LIMITED
Small Volume General Service Rate Class Composition
Updated with 2014 Actual Data

Union Residential GS Customers 2014

Class	*Category*	*#*	*Volumes ('000)*	*Average*
M1	Up to 5,000	930,936	2,274,246	2,443
	5,000 to 50,000	37,401	250,684	6,703
01	Up to 5,000	280,943	696,977	2,481
	5,000 to 50,000	12,315	82,204	6,675
Totals	Up to 5,000	1,211,879	2,971,223	2,452
	5,000 to 50,000	49,716	332,888	6,696
	Aggregate	**1,261,595**	**3,304,111**	**2,619**
	Percent	**92%**	**77%**	

Union C/I GS Customers 2014

Class	*Category*	*#*	*Volumes ('000)*	*Average*
M1	Up to 5,000	37,850	90,486	2,391
	5,000 to 50,000	40,388	629,458	15,585
01	Up to 5,000	11,688	28,957	2,478
	5,000 to 50,000	15,282	235,082	15,383
Totals	Up to 5,000	49,538	119,444	2,411
	5,000 to 50,000	55,670	864,540	15,530
	Aggregate	**105,208**	**983,984**	**9,353**
	Percent	**8%**	**23%**	

UNION GAS LIMITED

Undertaking of Mr. Tetreault
To Mr. Shepherd

To provide on a best-efforts basis a similar table for each of the 2016 through 2020 years, based on current forecast.

Response:

Please see Attachment 1 for Union's 2016 to 2018 forecast for Rate 01 and Rate M1. This forecast does not break down Rate 01 and Rate M1 residential and commercial/industrial customer volumes between 0 to 5,000 m^3 and 5,000 to 50,000 m^3.

Union does not have a Rate 01 and Rate M1 forecast for 2019 and 2020.

UNION GAS LIMITED
Small Volume General Service Rate Class Composition
based on 2016-2018 Forecast

2016 Forecast

Union Residential GS Customers 2016

Class	*Category*	*#*	*Volumes ('000)*	*Average*
M1	Up to 50,000	1,013,091	2,264,493	2,235
01	Up to 50,000	312,033	730,782	2,342
	Aggregate	1,325,124	2,995,276	2,260
	Percent	**92%**	**74%**	

Union C/I GS Customers 2016

Class	*Category*	*#*	*Volumes ('000)*	*Average*
M1	Up to 50,000	83,379	766,641	9,195
01	Up to 50,000	28,478	273,413	9,601
	Aggregate	111,857	1,040,054	9,298
	Percent	**8%**	**26%**	

2017 Forecast

Union Residential GS Customers 2017

Class	*Category*	*#*	*Volumes ('000)*	*Average*
M1	Up to 50,000	1,026,627	2,262,081	2,203
01	Up to 50,000	318,651	739,599	2,321
	Aggregate	1,345,278	3,001,679	2,231
	Percent	**92%**	**74%**	

Union C/I GS Customers 2017

Class	*Category*	*#*	*Volumes ('000)*	*Average*
M1	Up to 50,000	84,136	775,756	9,220
01	Up to 50,000	28,836	277,819	9,634
	Aggregate	112,971	1,053,574	9,326
	Percent	**8%**	**26%**	

2018 Forecast

Union Residential GS Customers 2018

Class	*Category*	*#*	*Volumes ('000)*	*Average*
M1	Up to 50,000	1,041,002	2,270,820	2,181
01	Up to 50,000	324,706	750,204	2,310
	Aggregate	1,365,709	3,021,024	2,212
	Percent	**92%**	**74%**	

Union C/I GS Customers 2018

Class	*Category*	*#*	*Volumes ('000)*	*Average*
M1	Up to 50,000	85,000	788,776	9,280
01	Up to 50,000	29,151	283,175	9,714
	Aggregate	114,151	1,071,951	9,391
	Percent	**8%**	**26%**	

UNION GAS LIMITED

Undertaking of Ms. Brooks
To Mr. Janigan

To provide its analysis of the cost effectiveness of a holistic low-income program, with estimates of potential gas savings.

Response:

Union does not have a cost-effectiveness analysis to provide. Through Union's exploration of a holistic multi-family offering, Union concluded that this alternative approach to market would result in very little incremental savings, if any at all, at a much higher cost.

UNION GAS LIMITED

Undertaking of Ms. Brooks
To Mr. Janigan

To advise whether the full 450,000 amount or a portion of it is required to integrate content into its MyAccount portal.

Response:

The $450,000 in start-up are associated with enhancing the MyAccount tool – including enhancing the customer facing aspects of MyAccount and enhancing existing back-end processes to bring together data from the Behavioural vendor, as well as additional data from Union's own billing/DSM tracking systems. Breaking-out the costs needed specifically for MyAccount integration is therefore difficult – the entire estimate was based on the assumption that MyAccount would be used as the starting point for the Online Portal based on its popularity with customers. If Union were to pursue another option, at a minimum costs would be required to transfer data from Union's existing billing/DSM tracking systems.

UNION GAS LIMITED

Undertaking of Mr. Goulden
To Mr. Elson

To advise if Union's concerns about the Navigant report are documented anywhere other than in Union's argument and to provide that documentation.

Response:

Union's concerns about the Navigant report filed by APPrO in the Large Volume proceeding can be found at Union's Reply Argument, which Mr. Elson filed as part of his compendium (Exhibit K2.1, Tab 9).

In addition to Union's Reply Argument, Union stated its concerns regarding the Navigant report in its Argument-in-Chief, an excerpt of which is provided at Attachment 1.

Ontario

ONTARIO ENERGY BOARD

FILE NO.:	**EB-2012-0337**	
VOLUME:	**2**	
DATE:	**February 1, 2013**	
BEFORE:	**Paula Conboy**	**Presiding Member**
	Marika Hare	**Member**

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Attachment 1

anything.

MS. CONBOY: Thank you. Okay, so we will -- we will rise until 3 o'clock. Thank you very much.

--- Luncheon recess taken at 1:05 p.m.

--- On resuming at 3:08 p.m.

MS. CONBOY: Thank you. Please be seated.

Thank you. Mr. Smith, we will hear your argument in-chief.

FINAL ARGUMENT BY MR. SMITH:

MR. SMITH: Thank you.

Allow me to first give the Board -- well, actually, before I even do that, you should have a compendium that we have prepared, and in our haste to prepare this compendium, we organized it by tabs, but we don't have tabs. We have numbers in the top right-hand corner. It's sub-optimal, but I think we'll be fine.

MS. CONBOY: okay.

MR. MILLAR: Madam Chair, I would propose we mark that Exhibit K2.3, which is the Union Gas argument in-chief compendium.

EXHIBIT NO. K2.3: UNION GAS ARGUMENT IN-CHIEF COMPENDIUM.

MS. CONBOY: Thank you.

MR. SMITH: So here is a road map to my submissions. I will first address the Board's two questions from before lunch, and then proceed to an overview of the rest of Union's argument, and then go into that.

So with respect to question 1: How should the fact

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that we are now in February impact the August 1st deadline? From Union's perspective, the answer to this first question is that Union doesn't believe that the August 1st deadline should be moved as a result of the fact that it is February the 1st.

Funds can be protected by earmarking them for an approved project by August 1st and spending them by the end of the year.

There is one date that would have to move, though, and that's the date that the deadline for submitting the energy plan arrives, and that used to be April 1st, and if you went in this direction, in our submission, it should be June 1st.

On the second question: How would a two-year approach bear on the August 1st deadline for spending or earmarking funds? The answer to this question is that if the Board decides to go with Mr. Neme's two-year proposal, then the August 1st deadline should move to December 31st, 2013.

This deadline would give T2 and R100 customers adequate time to access or earmark their designated incentive amounts, but at the same time it would also give other rate class members time to use those undesignated incentive amounts in the aggregate pool at the end of 2013, if they're essentially abandoned.

So now moving on to the overview of the main argument, first, I will briefly summarize Union's position and what Union is proposing in this application. My submission on this point will be that Union's application should be approved as filed.

Second, I will address APPrO's proposal to introduce the so-called opt-out into Union's high-volume DSM plan. My primary submission on this point is that, depending on how it would be structured, an opt-out would either (a) be unfair to other rate class members, or (b) would be unfair to other rate class members and would also compromise the viability of the program and constitute an undesirable precedent-making departure from fundamental rate-making principles.

As an aside, I will also argue that the Navigant study should be given little weight.

Third, I will address GEC's proposal to change Union's large volume DSM program from a one-year program to a two-year program. My primary submission on this point is that doing so would (a) ensure added complexity and risk, (b) encourage or at the very least facilitate procrastination on the part of busy customers who have higher priorities than pursuing conservation initiatives, and (c) would create a potential for larger deferral amounts. And we'll have more to say about why that is highly undesirable.

All of this would be in the name of a speculative hope that customers will be encouraged to pursue larger projects and, in our view -- in our submission, rather, there is no solid evidence before the Board that that is in fact going to happen.

Fourth, I will address Environmental Defence's proposal to increase the large volume DSM budget. My submission on this point is that such an approach is one-sided and will result in a customer backlash against Union's large volume DSM program.

Finally, I will argue that the primary irritant that led to this matter proceeding all the way to a hearing was the 2011 deferral issue and that, in our submission, the Board should not attempt to address that issue by unwinding decades of precedent on fundamental principles of rate-making.

So on to my first issue, Union's position. Union freely acknowledges that power generation customers possess expertise to undertaken energy efficiency programs on their own that result in natural gas savings. In Union's submission, this fact should not be seen as a matter of controversy in this proceeding.

The Board has acknowledged this fact in the DSM guidelines and stated that DSM proposals for such customers, if proposed, should be considered on their merits.

I would just like to take you to that very briefly. That's the first tab of our compendium, and it is side-barred, 8.2:

"The Board is of the view that large industrial customers possess the expertise to undertake energy efficiency programs on their own. As a result, ratepayer funded DSM programs for large industrial customers are no longer mandatory. If any are proposed, they will be considered on their merits. The Board defines large industrial gas customers..."

And so on and so on...

Now, I think a sort of false dichotomy has haunted this proceeding, and that false dichotomy is, if the power generators are expert at conservation, then there can be no more to do. And I think we heard an articulation of this with Mr. Zarumba's evidence earlier today. And I'm paraphrasing, because I don't have the transcript, but he suggested something to the effect that talking about a power generator that does not deal with energy efficiency is like talking about a bank that does not specialize in money, or something like that. In other words, the two are one in the same.

By analogy, we would take a different view. We say that banks sometimes work with financial consultants. There's something to be said for a pair of fresh eyes even where the party taking the first look has expertise.

The real question, in our submission, is not whether power generation customers possess energy efficiency expertise. They do. The real when question is whether the program proposed in Union's application complements that expertise and helps customers achieve additional natural gas savings and a reduction of greenhouse gas emissions, which is the focus of DSM.

And I just have at tab 2 that language from the overview of the DSM guidelines, where it says:

"While the focus of DSM is natural gas savings and the reduction in greenhouse gases emissions..."

I assume that means "gas emissions", and then an aside. And it is important to remember that's the point, in my submission.

So all of that leads me to our submission that Union's application, as filed, is meritorious and should be approved.

Now, I just want to go briefly into Union's history with high volume DSM, because I think it is worth remembering that it has been a history of success, and this is about continuing that success, ideally.

So if you go to tab 3, I won't dwell on these, but I assume you've seen them before. They're annual and cumulative lifetime savings in the millions, and then over the next page, that is just a graph indicating that overall program cost effectiveness is increasing year over year by an average of 50 m3 saved per DSM dollar spent.

And tab 4 is the same for the Rate 100, mutatis mutandis.

Then I have included here, but I won't take you through it, the answer to an undertaking that Mr. MacEacheron referenced in his evidence, because I think it's tab 6, the transcript that comes next, references that. So I just wanted you to have that.

And I will just start around the middle of the page. I think you will recall this, where this came in. It's page 8, so it is early on.

Sorry, line 7:

"Over that four-year period, we've saved, together with our APPrO member companies -- have saved over 230 metres cubed of natural gas. And that is roughly the equivalent of what 100,000 homes would burn in a year".

So I just included that because with these huge orders of magnitude, it is easy to lose sight of that, and I think that really concretizes it.

Union's application in the present proceeding builds on that success by encouraging further program participation, and by responding to the concerns of large-volume DSM customers.

In developing the application, Union consulted with affected customers. Union's consultation efforts are described in Union's written direct evidence, starting at page 4 of 36. I won't take you to it; I am sure you have seen it.

Union conducted customer focus group meetings as part of its development of the large-volume DSM plan for 2013-2014.

At those meetings, it became clear that the cost recovery -- cost recovery and deferral charges related to 2011 were a major issue for some customers.

And I just wanted you -- to take you to tab 7. This is the customer feedback summary for the T1 group, and I think that first bullet under "Cost recovery and deferral charge" really deserves some scrutiny.

It reads:

"Customers supported Union's DSM program, then were subsequently embarrassed by the potential 2011 deferral billing."

What I understand from that -- knowing what we know about the volume of the average deferral being around $600,000 -- is that it has to be the case that various people in these customer companies sort of own the relationship and are supposed to manage it. And can you imagine what it would be like to be that person, then to find out that there is a $600,000 deferral and to have to go into the person you report to's office and say: Guess what, you know that -- you know that thing I am supposed to be managing? We have to pay $600,000 that we didn't see coming.

That's a very awkward position for our customers, you know, our customer allies to be in, and we want to protect them from that position. We don't want to go back there. That will be a theme of my submissions today.

So that's what I think is really important to take away from that.

And tab 8 is just the same thing for the R100s.

And then at tab 9, I've given you, side-barred, Mr. MacEacheron's testimony about how customers clearly express that they never wanted to be in this situation again, and I will just read it out:

"Our concern with respect to the 15 percent and what we heard loud and clear from our customers in the consultation sessions that we had was, We don't want to see a deferral account like 2011 again, ever.

"And so we heard loud and clear, Give us predictable costs, minimize the volatility of the DSMVA. They wondered: What is this strange thing that visited these large costs on them? So minimize where you can, Union, the DSMVA."

So turning to a program overview, Union's program is responsive to these concerns. An overview of the program is in Union's written direct evidence, starting at page 6 of 36. The program includes the following five offerings. I think it is worth revisiting this, because so much emphasis is just on the cash incentive.

There are customer engagement, engineering feasibility and process improvement studies, O&M optimization, new equipment and processes, and energy management.

These offerings are described in Union's written direct evidence, which I have included at tab 10 of the compendium, but which I -- just for convenience, but I don't propose to take you through them.

So Union proposes to do a few things.

One, to deliver the same program offerings and maintain a budget consistent with its Board-approved 2012 budget, adjusted for inflation.

Also, T1 customers will retain access to an aggregate pool of customer incentives throughout the year. This approach, as we know, has driven projects in the past.

The new T2 and the Rate 100 customers will have access to a new direct-access budget mechanism. These customers will have full access to the customer incentive budget they pay in rates. If they don't use the funds to identify and implement energy efficiency projects, they lose the funds to other customers in their rates.

This provides enhanced flexibility to access a greater level of incentives for individual large project studies.

And you can see that if you look at tab 11, which is a PowerPoint from the 2012 EnerSmart program elements, which Mr. MacEacheron talked about.

And if we look, it is program element engineering feasibility study; the incentive is 50 percent of the costs up to $10,000, and so on and so forth, the idea being that there is a cap there.

Then over at tab 12, this is that testimony, Mr. MacEacheron saying:

> "On slide 8 -- on slide 8 we presented this again at all of our customer consultations sessions. Our program elements are documented on that slide. So I thought it might be helpful with this questioning to see our program elements. And on the right-hand side, you will see incentives and you will see engineering feasibility study at 50 percent of the cost, up to $10,000."

So it is capped. So on and so forth.

So the point is this is a place where we have

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introduced flexibility. The cap isn't there anymore, if you have the money to surpass the cap.

So Union's targets, in my submission, balance the goal of maximizing gas savings with generating broad customer participation amongst large-volume gas users. For T2 Rate 100 customers, Union has applied a 30 percent discount factor to the 2013 target for this metric.

This reflects the fact that the direct access budget mechanism provides flexibility to fund a greater percentage of incremental project costs, studies and audits.

Union's program goals and program strategy are set out in Union's written direct evidence at pages 23 of 36 -- at page 23 of 36, excuse me. And I have included that in the compendium.

Union's goals and strategy are practical and based on Union's in-the-field experience with these Ontario large-volume DSM customers. It is an approach based on responsiveness to challenges that arise and continuous refinement to produce continued success.

So that's all I have to say on my first point.

I am now going to move on to my second point, regarding APPrO and opt-out.

APPrO proposes an opt-out from Union's large-volume DSM program. An initial question is: An opt-out from what? This issue was addressed in Ms. Lynch and Mr. Tetreault's testimony yesterday.

One version of the opt-out, the version that they were talking about involves a customer opting out of the customer incentive equivalent of the 68 percent of what they pay in rates. This approach would result in a cross-subsidy within the rate class. Those remaining in would bear the full burden of the costs assigned to the rate class as a whole.

And on that point, I'd just turn you to tab 14. And starting at line 16 -- well, I guess I will start with the question.

Ms. Dullet asked:

"Can you explain that, the customer incentive?

"Ms. Lynch: So under our direct access budget model for incentives, each customer would receive a customer incentive equivalent to 68 percent of what they pay in rates. So again, depending on design of how an opt-out program would work, our expectation is that we would need to continue all of the components, portfolio portion of the program, but it would only be that incentive piece for those who opted out that we would then look to reallocate to other customers.

"Ms. Dullet: Would you -- would the customers who do not opt out, is it plausible they would be paying more for DSM services?

"Ms. Lynch: Yes, it would be possible.

"Ms. Dullet: Would the portion of their rates linked to the DSM materially increase?

"Mr. Tetreault: They could, yes, if you're recovering the DSM budget over a smaller group of

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customers."

And then I will just skip to the bottom of the page, starting at line 21, where Mr. Tetreault says:

"I think the main negative consequence -- and there could be others -- the main one is the one we just spoke about, that being essentially a cross-subsidy within a rate class, where the remaining customers in a class pick up all the DSM budget costs that have been allocated to that class, because certain customers have chosen to opt out of paying costs that have been allocated to the rate class."

Over the page:

"There could be other consequences. That is -- from a rate-making standpoint, that is the main one, the cross-subsidy issue."

The opt-out that APPrO is advocating is, in my submission, more extreme as is it not only unfair to others in the rate class, but also threatens the viability of large volume DSM programs by cutting the overheads, including technical resources, that make the program possible.

The danger posed by APPrO's approach became evident in the course of APPrO's cross-examination of the Union panel, and this is tab 15, page 126, and Mr. Frank says, starting at line 13:

"And I understood you to say earlier -- I believe it was you, Mr. Tetreault -- that if that was removed, that would remove the main cross-subsidy cost?

"Mr. Tetreault: Yes. When I was referring to earlier in the cross from CME was the fact that if -- and in her example -- there was one customer remaining in the class, that customer would pay -- would pay all the DSM costs allocated to that class at that point.

"Mr. Frank: Right. But if the incentive piece was removed -- the $900,000 in that example -- such that that customer remained responsible only for $100,000, as it had been previously, then there would be no impact as a result of the opt-out, on that portion at least?"

And then Mr. Tetreault cuts to the heart of the matter and says:

"Yes, that's fair. Yes, that's fair. Recognizing of course that any type of opt-out for any customer of costs that had been allocated to the -- to any particular rate is violating a fundamental principle of class ratemaking whereby all customers in the class pay the same rates."

And then Mr. Frank speaks of how we will get to that, which no doubt we will.

So as I understand this exchange between pages 126 and 130, which I won't take you through all of, but which you have, APPrO appears to take the position that DSM is, in essence, a service and that customers should be able to opt out of the service at their own volition, just as they can opt out of the provision of other services.

Such a position does not recognize that DSM is part of Union's distribution service to customers, which is a cost that has been allocated to the rate class.

That type of opt out violates the fundamental principle of class rate-making whereby all customers in a class pay the same rates. If this is indeed APPrO's proposal, then it is not merely an attack on Union's application, but on class rate-making itself.

Finally, the special treatment that APPrO is seeking for their members is premised on the assumption that they are power generators and that that means they have no conservation savings to be gained by participating in DSM.

If Mr. MacEacheron's evidence is accurate - and I submit that it is - then that premise is false, and I will briefly take you to some of that. It is at tab 16, and it's at page 8, picking up where the black line drops off.

> "And so we have also provided in that interrogatory response a list of project applications, and you can see the list below. There's 18 on that. The list could be much bigger than that, but we boiled it down to those 18 applications. And the first one you can see here is steam system upgrades, repair and maintenance, condenser optimization. So you can see that there are a number of programs that we can deliver to power generation customers.

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"I would like to pause there for a second, because the notion created by the statement -- and Navigant repeats it more than once in their evidence -- that our programs don't fit with gas-fired power generators, I would like to clarify.

"A gas-fired power generator takes natural gas and burns it in a gas turbine, and that produces electricity. It turns a generator and produces electricity. Roughly about 35 percent efficient.

"They then capture the waste heat out of the -- from the exhaust of the turbine. They put that into a waste heat recovery steam generator, and they make steam. And they use that steam for one of two purposes.

"One, to put it in a steam generator and make more electricity, and thereby increase the electrical output of the facility and with the same unit of energy.

"Or they take that steam and they give it to a host site for steam application, typically an industrial site, commercial building, what have you.

"So that steam portion of a gas-fired generator's plant is identical to any steam system, high-pressure steam system that you would find in a large-volume industrial plant."

And so I won't go on and read all of that, but I just remind you of his evidence on that point.

So at this point -- oh, I should -- also, before I leave APPrO, I wanted to speak of the survey. And we had some questions today about privilege and about professional responsibility, and I have no doubt you have very little interest in watching me trying to cut that Gordian knot. I am not interested in it.

All I am interested this is the fact that that sort of cluster of claims, I am going to call them, I think reduces the weight that you should place on the survey. I just think one has to do so much work to pierce through it, and, if you want something, come to the Board and ask. That is my submission. I don't propose to spend any more time on it than that.

So moving on to GEC's two-year proposal, Mr. Neme suggests that for 2013-2014 Union should extend the time line for the T2 Rate 100 direct access program from one to two years.

This suggestion appears to be informed by a desire to enhance program flexibility for customers and to encourage larger projects that Mr. Neme believes will lead to larger reductions.

These are laudable goals. Union has not and will not dispute Mr. Neme's credentials. Union does not dispute that Mr. Neme is an informed commentator on these issue who has an interesting theoretical perspective that is worthy of thoughtful consideration.

Accordingly, Union carefully considered Mr. Neme's report and his recommendations of extending the program to two years. In light of Union's on-the-ground experience with these customers - not theoretical customers, these customers - Union has concluded that a two-year approach is not preferable. On the one hand, it would guarantee added complexity and risk and would encourage or at least facilitate procrastination on the part of busy customers who have higher priorities than pursuing conservation initiatives.

I should also pause there, because that is maybe not an entirely fair characterization. Another aspect of this, I think, is that having that use-it-or-lose-it element really gives the internal client advocate for conservation initiatives the attention of management, you know.

If you say there's steam coming out of somewhere, it may be a priority. Maybe a blanket goes over it for a month or whatever.

If you say, If we don't spend this money by a certain date, we're going to lose it and others in the rate class get to scoop it, that gets management's attention. The money gets spent. The conservation happens.

So the other thing that I should say is that moving to this two-year proposal would allow for that potential procrastination or disempowerment of the internal advocate, however you want to put it, and it would do so in the name of a speculative hope that customers will be encouraged to pursue larger projects.

And so I have included at tab 17 more of Mr. MacEacheron's evidence on that point. It starts around

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line 13 of page 68. He says:

"But that's -- you know, it does allow the customer also the opportunity to say, I'll revisit this file next year."

That is, the two-year model:

"I've got production problems coming out of nowhere here. Energy efficiency is not my thing."

I am going to gloss that:

"If I'm not going to lose my funds this year, tell you what, let's talk about it next January."

And he goes on. I won't take you through all of it. So Mr. MacEacheron gave evidence that there was no particular appetite among customers for a two-year program - I think this is important - because while there is some theoretical appeal and while flexibility is a good, it is not everything.

And ultimately this is about responsiveness to customers. In consultations, they said that the August 1st use-it-or-lose-it deadline sounded about right.

And that is at tab 18 of the compendium, and it starts at line 15. He says:

"There's a bit of a delicate balance in there. When I met with the customers to review our draft at that time, direct access concept, the August 1st date was discussed extensively with the customers. They said: Well, this is different.

"And I said: Well, we're going to give you sole access, dedicated to you, for the amount of incentive dollars you pay in rates. But if you don't use it or have it earmarked for a project by August 1st, you will lose it.

"And they thought: Okay. August 1st was fair.

"And what I thought was really interesting -- and I am recalling one customer presentation with two of my largest industrial customers, looking at one another and saying: Well, if you're not going to spend your dollars by August 1st, I'm going to."

You will remember that moment.

In my submission, it shows that it's striking the right balance; you know, these are real customers, real conversations.

I'm going to move on now to the proposal of increasing the large-volume DSM budget, and all I'm going to do is refer you to tab 19, which is my redirect to Mr. MacEacheron.

And I asked him:

"Given the customer reaction..."

This is at the top of 148.

"Given the customer reaction that you saw to the deferrals in 2011 and APPrO's reaction to that, how do you think APPrO members would react to that proposal? Namely, the proposal of simply upping the budget on large volume?"

Answer:

"They would not want their budget -- I would
fully expect that they would not want their
budget upped on their large-volume accounts."

And now finally, I think this is an appropriate -- and that's all I have to say on that proposal.

The final thing I am going to touch on is what I alluded to at the beginning of my submissions, which is the perils of unwinding the 2011 deferrals in the context of this proceeding.

And here, I would just ask you to turn to tab 20, which is the Veresen letter which has been lingering in the background of this proceeding since its appearance yesterday morning.

And I think the real question that this letter raises is: How did we get from here to here? You know?

We heard evidence today that Veresen was asked by Union to write it. I don't see how that really changes anything.

I think what's clearly happened is that there was a problem with deferrals. There was frustration, and it has upset the entire billion of the DSM relationship.

And in resetting that balance, I think we have to guard against deferrals. That's going to be very important.

And the last thing I will say, the last thing I will say is that while this is regrettable, that we got here this way, what would be still more regrettable is trying to address this issue, which, you know, has been addressed by

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the Board through the DSM Guidelines, which Union has followed, trying to address that by unwinding decades of precedent on a point of fundamental ratemaking.

Those are my submissions.

MS. CONBOY: Thank you.

MS. HARE: I just have a very quick question.

When was the 2011 deferral account, the amount, when was that known? Or, I should say, disclosed to customers?

MR. SMITH: We would have filed the 2011 deferrals in March of 2012. We were talking to customers as soon as we knew what those balances were, so I would say probably before we filed, and we've been talking with customers ever since then.

MS. HARE: Thank you.

MS. CONBOY: Okay. I have no questions, Mr. Smith. Thank you very much for your argument in-chief.

And we will reconvene on Tuesday, although I understand with a small group of intervenors that will be filing or will be presenting oral submissions.

Do you recall who it was that said that it was -- CME, I think?

MR. MILLAR: Yes. That's right. CME, and I understand IGUA, as well, now.

MS. CONBOY: Okay.

MS. HARE: But those are the only two?

MR. MILLAR: We haven't heard from everyone, though the majority of people we have now heard from.

Staff will be here, as well.