

EB-2015-0029/0049

Ontario Energy Board

Union Gas Limited/Enbridge Gas Distribution

2015-2020 DSM Multi-year Plans

Union Gas Limited
Union Compendium for GEC Panel

September 1, 2015

UNION COMPENDIUM FOR GEC PANEL

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Tab 1

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Exh L.GEC.1

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II. Testimony Summary

My analysis of both the evidence presented by Enbridge and Union in their 2015-2020 DSM plans, as well as analysis of relevant data and information from other jurisdictions, leads me to a number of key conclusions. Those conclusions are presented in this section. More detailed analysis supporting the conclusions is provided in ensuing sections.

1. Savings Targets and Budgets (Issues 2 and 3)

- A. **Both utilities' proposed savings goals are inconsistent with the province's "conservation first" policy.** Both companies have proposed savings levels over the 2016-2020 period that are a little more than half of what leading jurisdictions have already achieved.⁵ Though Enbridge's proposed savings are higher than their programs have achieved in recent years, Union's are dramatically lower, with the result being that annual savings province-wide will actually be lower in every year from 2016 to 2020 than they were in every year from 2012 to 2014. Both utilities are also continuing to forecast extremely low participation rates for a number of key efficiency technologies and programs.

At a high level, there are four factors that underpin the utilities' low savings targets:

- a. **Budget constraints** – both utilities limit their DSM budgets to the levels suggested in the Board's recent gas DSM framework and guidelines;
 - b. **Union's cancelling of its large industrial program** – Union followed the framework's/guidelines' suggestion to stop offering its self-direct program;
 - c. **Greater emphasis on smaller customers** – both utilities propose placing greater emphasis on treating efficiency opportunities from residential and smaller business customers, from which savings are typically more expensive to acquire (though still cost-effective); and
 - d. **Conservative savings estimates** – both utilities appear to have used conservative assumptions regarding the savings yields from some of their proposed programs.
- B. **The utilities should have higher budgets to acquire greater savings.** The utilities argue that their budgets are appropriate because they follow the Board's guidelines to limit spending to the equivalent of approximately \$2 per month per residential customer. There are several problems with that argument:
- a. **New Provincial policy commitments to carbon emission reductions should render 2014 budget guidance obsolete.** The policy landscape has changed since

⁵ Note that throughout this evidence I often refer to annual savings rather than the lifetime savings that are the focus of the utilities' performance metrics. That is done simply to make comparisons across jurisdictions possible, as many jurisdictions do not report lifetime savings. Lifetimes savings is a better metric of performance and should still be the basis for assessments of utility performance.

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December 2014, the month that the Board's framework/guidelines were completed. In particular, the province of Ontario has made several critically important commitments to reducing carbon emissions and addressing climate change. That includes joining Quebec, British Columbia, California, and other sub-national jurisdictions in re-affirming a commitment to at least an 80% carbon emission reduction by 2050;^{6,7} the establishment of a new commitment to a 37% carbon emission reduction in the province by 2030;⁸ and the commitment to imposing a carbon "cap-and-trade" policy to meeting those requirements.⁹ The cost of carbon emission reductions will be borne by all customers, including DSM non-participants. Thus, if carbon emission reductions from efficiency are constrained by a \$2 per month spending cap, gas customers (including non-participants in DSM programs) will have to pay for more carbon emission allowances and/or for other (likely more expensive) approaches to reducing emissions.

- b. **Even if \$2 per month per non-participating residential customers were an appropriate limit for the impact of gas DSM, the limit should be expressed as \$2 per month *net of both DSM spending and DSM benefits to non-participants*.** Gas DSM produces several system-wide benefits – including reduced capital expenditures on transmission and distribution, commodity price suppression effects, the ability to purchase less of the more expensive gas and reduced carbon regulation compliance costs – that put offsetting downward pressure on rates. Thus, even if it were appropriate to cap the level of DSM spending in order to limit the impact on the average non-participating residential customer to \$2 per month, the cap should be set such that the impact on non-participants is \$2 per month from the *combined effects* of DSM spending and system-wide benefits. Mr. Chernick's analysis suggests that, in aggregate, the magnitude of the system-wide benefits for the utilities' proposed DSM plans is equal to 1½ times (or more) the size of the budgets in those plans. Put another way, the combined effect on rates of both the DSM spending and the system-wide benefits from the utilities proposed plans should be a *reduction* of more than \$1 per month over the over the life of the efficiency measures funded. Clearly, significant additional DSM spending – which will produce additional system-wide benefits – could be pursued without crossing a \$2 per month *net* rate impact on consumers.

- c. **OEB Guidelines are not requirements.** Indeed, the utilities' proposed plans

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⁷ SustainableBusiness.com News, "Under 2 MOU signed by 12 Governments", 05/20/2015 (see: <http://www.sustainablebusiness.com/index.cfm/go/news.display/id/26305>)

⁸ Ontario Ministry of the Environment and Climate Change, "Ontario First Province in Canada to Set 2030 Greenhouse Gas Pollution Reduction Target", May 14, 2015 press release (<http://news.ontario.ca/ene/en/2015/05/ontario-first-province-in-canada-to-set-2030-greenhouse-gas-pollution-reduction-target.html>)

⁹ Office of the Ontario Premier, "Cap and Trade System to Limit Greenhouse Gas Pollution in Ontario", April 3, 2015 press release. (see: <http://news.ontario.ca/opo/en/2015/04/cap-and-trade-system-to-limit-greenhouse-gas-pollution-in-ontario.html>)

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selectively deviate from the guidelines in a variety of other ways.¹⁰ To the extent the utilities found that sticking to the guidelines would leave large volumes of cost-effective savings untapped and/or made it more costly to address future carbon regulations, they should have proposed larger budgets. Indeed, the Board's guidelines called for the utilities to assess alternative budgets.

- C. **Union Gas should continue its current large industrial “self direct” program (though with some modifications to improve its design).** This program accounted for roughly half of Union’s total 2013 and 2014 savings – even after adjusting for an assumed free rider rate of 54%. Thus, the scrapping of this program is the single biggest reason for the dramatic decline in forecast gas savings for both Union and the province. In its framework and guidelines, the Board articulated two reasons for not requiring the large industrial customers to participate in funding efficiency programs: (1) that there are concerns about “one customer subsidizing business improvements of another”;¹¹ and (2) that the large customers were both sufficiently sophisticated and motivated to invest in efficiency on their own. However, the Self Direct program model that Union adopted for these customers starting in 2013 already effectively eliminated the concern about cross-participant subsidies. There is also no empirical evidence – from Ontario or any other jurisdiction – to suggest that large customers pursue all cost-effective efficiency measures absent efficiency programs. Thus, scrapping the program effectively means foregoing some of the largest and most cost-effective savings Union and the province could acquire. That is not to say that the self-direct program needs to stay unchanged. For example, it could:
- be made more flexible by allowing for multi-year budgets and projects as I discussed in my EB-2012-0337 testimony;
 - be designed to reduce potential concerns about free ridership by limiting the range of measures it could be used to fund;
 - include, as a couple of other jurisdictions have done, an opt out provision for those customers that can truly demonstrate that they have already comprehensively addressed all cost-effective efficiency opportunities – e.g. if an independently hired auditor can demonstrate that all efficiency measures with less than a 10 year payback have already been implemented.
- D. **While it is appropriate to use some additional budget to better serve historically under-served customers, it is inappropriate to actually reduce savings from the most cost-effective sources at a time when budgets are doubling.** Both utilities’ DSM plans, but particularly Enbridge’s, embody significant shifts in emphasis towards addressing efficiency opportunities for smaller customers. As a general matter, doing more to address harder-to-reach customer segments is a reasonable objective. However, in Union’s case, that is being done at the expense of acquiring still relatively

¹⁰ Examples include Union’s proposal to earn its maximum performance incentive when it meets 125% of its targets instead of the 150% suggested by the guidelines, Union’s proposal to include Rate T1 in its C&I program portfolio, Union’s refusal to present a transition plan for integrating DSM into infrastructure planning and Enbridge’s proposal to allocate a little more than 40% of funding to the residential class. Some of those proposals have merit.

¹¹ OEB DSM Framework, p. 27.

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III. Benchmarking Utilities' Savings Targets

1. Overview of the Utilities' Proposed Savings Levels

Consistent with the Board's new gas DSM framework and guidelines, both Enbridge's and Union's plans for 2015 are essentially "roll-overs" of their 2014 plans. Both utilities propose substantial increases in DSM spending in 2016 with much more modest increases in subsequent years. The average proposed spending levels over the 2016-2020 period are 3% to 5% below the annual spending levels suggested in the Board's DSM framework (i.e. \$75 million per year for Enbridge and \$60 million per year for Union, excluding shareholder incentives). In Enbridge's case, spending roughly 2½ times more in 2020 than in 2014 is forecast to produce an 81% increase in incremental annual savings and a 64% increase in lifetime savings. In Union's case, a near doubling of spending from 2014 to 2020 is forecast to result in a 40% to 50% *reduction* in both incremental annual savings and lifetime savings. The net impact for the province as a whole is a net reduction in both incremental annual savings (a little more than 10% less in 2020 than in 2014) and lifetime energy savings (nearly 20% less from the 2020 spending than was achieved in 2014).

Put simply, the utilities' proposed savings targets are not even close to being consistent with the notion of a "conservation first" policy. The following subsections discuss a number of benchmarks that support those conclusions.

2. Savings Will Be Well Below Leading Jurisdictions

The incremental annual savings forecast by Ontario's utilities equates to approximately 0.6% (Union) to 0.7% (Enbridge) of annual sales to customers other than electric generators over the 2016-2020 period.¹² As Figure 1 shows, that level of savings is a little more than half of what of what leading jurisdictions have already achieved (i.e. in 2014).¹³ Like the Ontario utilities, utilities in these jurisdictions all have both cold winter climates and very long histories of running gas efficiency programs.

¹² I focus in this section on savings from and sales to customers other than electric power generators to facilitate "apples to apples" comparisons between utilities. When one includes sales to electric power generators, Union's projected incremental annual savings as a percent of sales is only 0.5%.

¹³ I focus on this five year period in their plans because we are already well into 2015, and the Board essentially required a continuation of past programs this year, so it really cannot be considered anything other than a "bridge year" to a new plan.

2015-2020 Natural Gas DSM Framework

It is important that the gas utilities' multi-year DSM plans focus on activities that will achieve a greater amount of long-term natural gas savings, better help participating customers manage their overall usage and ultimately their bills, and consider the guiding principles from Section xx and key priorities outlined above. The Board has provided a specific discussion of program types in the DSM Guidelines in Section 6.0. The gas utilities are expected to collaborate and integrate natural gas DSM program offerings across all sectors with Province-Wide Distributor and/or Local Distributor CDM programs throughout the course of the DSM framework period. As part of the multi-year DSM plans filed by the gas utilities, the Board expects that the gas utilities will include a discussion of the areas where programs have been coordinated and/or integrated with Province-Wide Distributor and/or Local Distributor, program aspects that have the potential to be integrated in the future and any barriers that have restricted the program from being coordinated and integrated with an electricity CDM program.

Additionally, the gas utilities DSM portfolios should include programs that are specifically designed to address customer groups with significant barriers to entry (e.g., small business customers). DSM portfolios should also include programs targeted to customers who are already very invested in energy efficiency and where more complex or customer-specific options are necessary.

The Board is of the view that rate funded DSM programs for large volume customers should not be mandated as these customers are sophisticated and typically competitively motivated to ensure their systems are efficient. The small number of customers in these classes further heightens the issues of one customer subsidizing business improvements of another. If a gas utility, in consultation with its large volume customers, determines that there is substantial interest in the gas utility providing expertise and a value-added service to help improve the energy efficiency levels of these customers' facilities, the gas utilities are able to propose a fee-for-service program which the Board will approve on its merits. The primary focus of any program proposed for large volume customers should be offering technical expertise, including conducting facility audits, advice for operational improvements, or engineering studies as opposed to capital incentives. Specifically, the gas utilities can propose a fee-for-service DSM programs to the customers in those classes identified as large volume rate classes in the table below. As can be seen in the table below, there is a very limited number of customers in these rate classes.

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1 1.3 Large Volume

3 **Background**

4 Following extensive customer consultation in 2012, Union designed and delivered a DSM
 5 Program specifically for its Large Volume (T2 and Rate 100) Customers in 2013 and 2014. The
 6 program includes the following key elements:

- 7 • Customer incentives for studies, custom projects, and metering.
- 8 • Union technical staff to assist customers with Energy Efficiency Plans and projects.
- 9 • Technical training courses
- 10 • A Direct Access Budget specific to each customer to provide clarity on the amount of
- 11 incentives available
- 12 • Union performance incentives based on achievement level relative to natural gas savings
- 13 targets

14 Through close collaboration between Union and Large Volume Customers, the program
 15 participation rate in 2013 was 82% of T2 and Rate 100 customers and increased to 95% in 2014.
 16 The audited program cost and lifetime savings in 2013 were \$3.55 million and 1,664 million m³
 17 of natural gas respectively. These natural gas savings represent almost 60% of 2013 DSM
 18 program savings from all Union Rate Classes.

19 Under the new Framework, this program will conclude at the end of 2015

21 **2015-2020 Demand Side Management Framework**

22 The Framework offers the following conclusions to guide the design of a DSM Program for
 23 Large Volume Customers starting in 2016:

- 24 • No ratepayer-funded customer incentives
- 25 • Proposed fee for consulting service by Union technical experts
- 26 • Union performance incentives based on achievement level relative to natural gas savings
- 27 targets
- 28 • Only portfolio-level staff costs can be ratepayer-funded

30 **Customer Consultations**

31 Union carried out consultations with 16 Large Volume Customers (44% of all Union's Rate T2
 32 and Rate 100 customers) in February and March 2015 to share the new Framework and
 33 understand what features and benefits the customers value in a utility energy efficiency program.
 34 The detailed responses are tabulated in Attachment A and the results are summarized here:

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- 1 • Some customers valued ratepayer-funded incentives and wanted them to continue in the
- 2 program
- 3 • Some customers treat incentive payments as a revenue stream to offset costs of future
- 4 energy saving initiatives.
- 5 • Most customers supported continuing involvement of Union technical experts with
- 6 customers' energy teams and/or other technical staff.
- 7 • Four (4) customers specifically supported the idea of a program with an emphasis on
- 8 technical support for energy teams, technical training and early-stage identification of
- 9 energy efficiency opportunities, which would be funded through rates.
- 10 • The concept of fee-for-service offerings by Union was not attractive to customers as they
- 11 believed that their internal processes would make them administratively complicated to
- 12 access and inflexible in practice.
- 13 • Customers wanted to minimize the impact of deferral account dispositions and supported
- 14 lower program costs.

15
16 This feedback has resulted in the development of a new program outlined below.

17 18 **Union Conclusions**

19 Union accepts the need articulated in the Framework to reduce the scale of ratepayer impact.
20 The issue of cross-subsidization between ratepayers within each rate class, was addressed in
21 2013 by the creation of Direct Access Budgets for all Rate T2 and Rate 100 customers.

22 Union has concluded that it should not offer a program based on fee-for-service consulting
23 services on energy management for the following reasons:

- 24
25 • It would not be appropriate to develop fee-for-service offerings with Board-approved
- 26 regulated rates when these services are already offered competitively in the market.
- 27 • Making reliable determinations of the actual natural gas savings from projects Union
- 28 participates in would be required for Union to track savings for the purpose of
- 29 determining a performance incentive. It would not be justifiable for a customer to devote
- 30 staff resources to this activity without receiving a customer incentive.
- 31 • Reporting and receiving a performance incentive based on customer savings achieved as
- 32 a result of fee-for-service consulting would constitute a conflict of interest for Union.
- 33 • Consultations with Large Volume Customers showed that the nature of Union's technical
- 34 interactions with the customer's energy team members and other staff does not lend itself
- 35 to a fee-for-service approach.

36
37 Instead, based on direct customer input, Union has determined that it is appropriate for Union

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to offer a multi-year ratepayer-funded Rate T2/Rate 100 program that will support large volume customers by ensuring a continued focus on energy efficiency by providing training and resources that will sustain the efforts to date. The program cost to ratepayers would be reduced to \$800,000/year.

In view of the demonstrated high participation rates in the prior years' ratepayer-funded programs, the results of customer consultations in February and March 2015, and contributing to the achievement of Goal (ii) in Section 1.4 of the Framework to "Promote energy conservation and energy efficiency to create a culture of conservation", Union believes this is a natural and appropriate evolution of the DSM programs for this market. The proposed program would include the following:

- Continuing specialized technical support and equipment audits by qualified Union Professional Engineers on an as-requested basis
- Coordinating and delivering training on energy near plant locations or online to minimize customer staff time away from the plant
- Eliminating customer incentive payments for studies, capital or operations & maintenance equipment investments
- Eliminating Union's performance incentive and Rate T2/Rate 100 energy saving targets
- Eliminating costs associated with energy saving targets and performance measurement
- Providing increased program cost certainty to customers by greatly reducing the magnitude of deferred costs to customers.

1.3.1 Customer Class(es) Targeted

Large Volume Customers

1.3.2 Rate Classes Targeted

- Rate T2 - Storage and Transportation Rates for Contract Carriage Customers (Union South).
- Rate 100 - Large Volume High Load Factor Firm Service (Union North).

1.3.3 Program Goals

- Provide all Large Volume customers with the tools, expertise and support to incorporate energy-efficiency into their everyday operations and practices through continuous improvement.
- Promote the identification of energy saving measures through proper analysis techniques.

design feature is that the Company may artificially constrain the amount of savings and even the cost-effectiveness of the savings that are realized.”

“In short, a multi-year direct access budget gives customers much greater flexibility to plan and pursue projects that provide the biggest bang for the buck and/or make the most sense for their business.

IGUA and APPrO supported GEC's multi-year plan proposal as it would provide more time for planning and greater flexibility. APPrO suggested that in the future a further extended period might even be considered.

CME submitted that it did not oppose the multi-year plan proposal so long as it didn't affect rate stability or predictability. However, CME cautioned that a two-year window may cause customers to defer their programs to the end of the two years.

Union remained concerned that GEC's proposal could result in procrastination, lost conservation opportunities and further deferral charges to customers that would disrupt rate predictability and rate stability. There were also implementation issues with respect to paying out the DSM incentive at the end of two years for industrial programs, as opposed to one year at a time. These deferral impacts could negate many of the improvements Union has incorporated into this application to enhance rate predictability and rate stability.

Board Findings

The Board approves Union's Self-Direct Program for Rate T2 and Rate 100 customers. The Board acknowledges that a multi-year approach could be advantageous, as a longer-term mechanism to implementing conservation programs, but finds that Union's concern about disrupting rate predictability and rate stability outweighs the benefits of implementing a new approach at this time.

The Self-Direct Program should be run as a pilot project for 2013 and 2014. The Board's expectation is that Union will be applying to the Board for approval of DSM programs for 2015 and beyond. The Board expects Union to provide quantitative results and analysis of how the Self-Directed Program plan has worked for 2013 and 2014 when it files its next DSM Plan.

principle that “all customers in the class pay the same rates”. Union was concerned that a departure from this principle would invite many similar requests for special exemptions, both within large volume rate classes and in other rate classes.

Board Findings

The Board does not accept APPrO’s proposal to allow large volume customers to be able to opt-out of DSM programs. Industrial DSM programs, both those funded through rates and by individual customers, have shown to be efficient and to have societal benefits with respect to reducing greenhouse gas emissions and encouraging wiser energy usage.

Comparisons were made to Enbridge Gas Distribution Inc.’s (“Enbridge”) rates for generators, who do not have and therefore do not pay for DSM programs. However, in the Enbridge example, entire rate classes are exempt, not certain customers within a rate class.

The Board agrees that an opt-out proposal would expose those customers that do not opt-out to be burdened with more costs than originally anticipated. The Board heard that large volume users are most concerned about rate predictability and stability when it comes to DSM and was urged to be guided by this concern.

The Board’s DSM Guidelines do not make it mandatory for natural gas distributors to have DSM programs for industrial classes, but once the distributor decides to provide for such programs, the entire class is responsible for paying for those programs.

While there was discussion about the rigour around Navigant’s Jurisdictional Review, the Board does not need to opine on this because it agrees with the principle that allowing certain customers in a rate class to opt-out of the costs allocated to that class is contrary to the fundamental class ratemaking methodology that all customers in the class pay the same rates. This, and the unintended consequences of increasing costs for customers that do not opt-out, are sufficient reasons for the Board to deny the opt-out proposal.

2. Self-Direct Program

Union is proposing a new customer incentive budget process for Rate T2 and Rate 100 customers (“Self-Direct” access budget mechanism) whereby customers will each have direct access to the full customer incentive budget they pay in rates (as opposed to the

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⁸ Ontario Ministry of the Environment and Climate Change, "Ontario First Province in Canada to Set 2030 Greenhouse Gas Pollution Reduction Target", May 14, 2015 press release (<http://news.ontario.ca/ene/en/2015/05/ontario-first-province-in-canada-to-set-2030-greenhouse-gas-pollution-reduction-target.html>)

⁹ Office of the Ontario Premier, "Cap and Trade System to Limit Greenhouse Gas Pollution in Ontario", April 3, 2015 press release. (see: <http://news.ontario.ca/opo/en/2015/04/cap-and-trade-system-to-limit-greenhouse-gas-pollution-in-ontario.html>)

2015-2020 Natural Gas DSM Framework

Overall, many stakeholders were of the view that annual DSM spending was likely to increase in order to achieve a greater level of natural gas savings, although there were some stakeholders who cautioned that increased spending must be supported by evidence that clearly displayed the incremental benefits the additional expenditures will produce.

4.2 Board Conclusions

The Board's objectives with respect to natural gas include the requirement to protect the interests of consumers with respect to prices, reliability and quality of gas service. The Board also has an objective to promote energy conservation and energy efficiency, but doing so having regard to the consumer's economic circumstances. In approving any budget amount, it is necessary for the Board to consider the rate impacts, or overall cost impacts, to customers, as all DSM costs are recovered through distribution rates. As noted earlier, since all customers share the total cost of DSM activities undertaken by the gas utilities, the Board must be mindful of the cost impacts to the non-participating customers. Many customers in all rate classes will likely not participate in a DSM program over the course of the new DSM framework. This is due to a number of reasons, including the inherent limits of DSM programs, primarily driven by the lack of opportunities a customer has to upgrade space or water heating systems. Although non-participating customers will enjoy some of the non-energy benefits that result from the program, including environmental benefits, the Board is centrally concerned with two factors that must be balanced: ensuring the gas utilities have sufficient funding available to pursue all cost-effective natural gas savings in their franchise areas and that the costs to undertake such efforts are reasonable for those customers who will not participate in a program.

Therefore, the Board has determined that for DSM activities between 2015 and 2020, the gas utilities' annual DSM budgets should be guided by the simple principle that DSM costs (inclusive of both DSM budget amounts and shareholder incentive amounts¹⁵) for a typical residential customer of each gas utility should be no greater than approximately \$2.00/month. The current bill impact for a typical residential customer is just under \$1.00/month. The budget guidance for the new multi-year DSM plans is in the order of double the cost impacts to residential customers from the 2012 to 2014 DSM period. Based on a \$2.00/month cost impact to a typical residential customer and considering the general historic program mix and the relative size of each utility, the Board has estimated total annual DSM amounts of \$85M for Enbridge and \$70M for

¹⁵ Shareholder Incentives are further discussed in Section 5 below.

2015-2020 Natural Gas DSM Framework

Union (these amounts are inclusive of the maximum annual shareholder incentive¹⁶). The Board is therefore establishing this as the maximum budget guideline for the new framework. NRG is encouraged to prepare and file a DSM plan with Board. Given that this is a new activity for NRG, the Board concludes that it should start initially with a DSM budget lower than a budget based on NRG's relative size to EGD and Union, and a bill impact for residential customers more in line with EGD and Union's from the previous framework.¹⁷ This can be reviewed at the time of the mid-term review.

To reach the annual budget levels of \$75M for EGD and \$60M for Union (exclusive of maximum annual shareholder incentive), utilities will need to propose cost-effective DSM plans with results in gas savings, benefits to customers, program participation and implementation of key priorities (outlined in Section 6.2 below) commensurate with the proposed spending. The Board expects that the multi-year DSM plan applications will propose a plan to phase in increases to the annual budget amounts. While the program mix going forward has not been prescribed, the Board is of the view that a bill impact of \$2.00/month for a typical residential customer, combined with the total budget amounts discussed above, provides a reasonable guideline for the gas utilities to prepare their DSM plans. The Board notes that this is a guideline, and the utilities can propose alternative budgets for approval by the Board, appropriately supported by evidence.

The budget amounts outlined above assume a general program mix where 40% of ratepayer funding for DSM activities is dedicated to the residential class. The gas utilities should ensure that overall cost increases to all other rate classes are generally proportional with the guidance outlined relative to residential customers, and that any proposed increases are reasonable and supported by significant benefits, including both natural gas savings and prospective bill reductions for customers. The gas utilities should include a forecast of the number of participants (customers, not measures installed) for each proposed program in each year. For each program proposed by the gas utilities, they should also include anticipated overall cost impacts (budget and shareholder incentive) for a typical customer in each rate class, and projected monthly and annual bill reductions for a typical participant and the overall costs borne by a typical non-participating customer.

¹⁶ This is made up of maximum annual budgets of \$74.5M for EGD and \$59.5M for Union with maximum annual incentives equal to \$10.45M for EGD and Union.

¹⁷ The Board does not have historic DSM information for NRG. A budget based on NRG's relative size to both EGD and Union would be \$0.35M, and therefore the budget for NRG would be expected to be lower than this. NRG will be expected to fully support any application for rate funding to support DSM activities similar to that which is expected of both EGD and Union.

Filed: August 10, 2015
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Exhibit M.GEC.UNION.1
Page 3 of 3

	VT	MA	RI	MN
Number of Customers (2012)				
Residential	39,917	1,411,717	228,487	1,364,174
Commercial	5,535	119,742	21,442	125,831
Industrial	38	6,027	56	1,225
Total	45,490	1,537,486	249,985	1,491,230
Sales Volumes (m3 in 2012)				
Residential	85,280,468	3,206,807,568	449,770,294	2,908,609,482
Commercial	65,522,055	1,966,788,808	285,725,638	2,236,586,473
Industrial	76,770,020	1,212,578,171	222,023,205	2,877,751,427
Total	227,572,544	6,386,174,548	957,519,137	8,022,947,382
DSM Spending (2014)				
Residential	\$ 1,536,730	\$ 98,897,476	\$ 9,829,100	\$ 23,545,912
Low Income	\$ -	\$ 38,284,014	\$ 4,246,800	\$ 5,040,259
C&I	\$ 714,125	\$ 33,914,584	\$ 5,586,800	\$ 12,156,533
Regulatory/other			\$ 370,900	\$ 3,995,914
Total	\$ 2,250,855	\$ 171,096,074	\$ 20,033,600	\$ 44,738,618
Annual m3 Savings (2014)				
Residential	838,806	44,433,623	5,203,928	32,434,937
Low Income	-	7,443,613	837,362	1,433,803
C&I	1,776,524	29,231,704	5,541,184	49,782,447
Total	2,615,330	81,108,941	11,582,474	83,651,187
Lifetime m3 Savings (2014)				
Total	45,196,622	1,084,138,194	168,723,475	n.a.

- b) Mr. Neme does not have access to detailed information regarding the characteristics of large customers in these jurisdictions. As noted in response to a) above, large customers in Minnesota are permitted to opt out of DSM programs. To his knowledge, the utilities in Vermont, Massachusetts and Rhode Island serve all customers, including large customers, with their programs.

Witness: Chris Neme

Tab 3

EB-2015-0029

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Exh L.GEC.1

- Verification (CPSV) processes from the utilities; ideally the Auditor should now hire and manage the CPSV work.
- c. Establishing a streamlined process for addressing the few situations in which consensus is not reached in the TEC.

4. Using DSM to Address Future Infrastructure Capacity Needs

- I. **Enbridge proposed approach to advancing the consideration of DSM in infrastructure planning has merit, but needs refinement.** In particular, its approach to selecting case studies for analysis needs to be better defined and structured, consistent with industry best practices.
- J. **Union's proposed approach to advancing the consideration of DSM in infrastructure planning is woefully inadequate.** The Company did not submit what could reasonably be called a scope of work for its study. Worse still, it refused to present a preliminary transition plan. Finally, it appears to have explicitly violated the Board's order in the GTA case to consider DSM as an alternative to infrastructure investment in all future leave-to-construct cases.

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Exh L.GEC.1

much can be learned from paper studies. Ultimately, pilot projects should be undertaken to test the “paper learnings” in real world applications. Indeed, I would note that the Michigan utility with which I am currently working plans to launch a pilot project in the field within roughly a year of when our analysis began.

4. Consideration of DSM in All Leave to Construct Projects

The Board was very clear in its order in the GTA case that both utilities must begin to explicitly consider DSM as an alternative to infrastructure investments. That view was reiterated in its December 2014 guidelines.

Unfortunately, it appears as if Union has been intentionally ignoring that requirement. Indeed, during the July 7, 2015 Technical Conference, its staff specifically said that it has initiated leave to construct projects since the GTA case was concluded and that it has not considered the role that DSM could potentially play in cost-effectively deferring those projects.⁹⁰

I have not investigated whether the same is true of Enbridge.

⁹⁰

Technical Conference Transcript July 7, 2015, pages 103-104.



ONTARIO ENERGY BOARD

FILE NO.: EB-2015-0029
EB-2015-0049

Union Gas Limited
Enbridge Gas Distribution Inc.

VOLUME: Technical Conference

DATE: July 7, 2015

1 demand forecast, then we have incorporated it in that way.

2 But as we've said and noted, it's -- there's a need to
3 study it further before we're going to be able to answer
4 any additional questions.

5 MR. NEME: So I get the point that to the -- that your
6 forecasting of your needs will already -- I think what
7 you're saying, Tracy, is that the forecasting of your needs
8 will already -- will account for your system-wide
9 efficiency program impact. Is that -- do I understand that
10 correctly?

11 MS. LYNCH: That's correct.

12 MR. NEME: So but even -- so but taking the next step,
13 so if your forecast of needs accounts for that but it still
14 suggests that there's a need coming up for some capital
15 project, capital investment project, and that need comes up
16 between -- or is identified between now and when your study
17 is completed, what will you do? How will you take -- how
18 will you consider whether additional geographically-
19 targeted DSM could play a role in cost effectively
20 deferring that need if your study is not yet complete?

21 MS. LYNCH: At that point, we would speak to -- to
22 what we -- we have done. I think it's important, though,
23 as you look at the approach, one of the key things you'll
24 see is I'm sure you review the study we provided from
25 Dunski Energy, one of the key elements that we need to
26 think about is what is the timeline that needs to be in
27 place before you could effectively take a focused or
28 specific area approach in -- in assuming that DSM would be

1 able to -- to impact that requirement.

2 MR. NEME: Absolutely. As you know, I've done a lot
3 of work on this topic, and I completely agree that timeline
4 is important. But I guess, you know, if, for example, you
5 need a four-year lead time to potentially defer something
6 and your study is not -- its completion date is not -- you
7 know, is anticipated at the time that need is -- is
8 identified to be two years further out, such that, if you
9 waited until the completion of the study, you wouldn't
10 actually have enough time to do anything about it. Are you
11 suggesting that you just go ahead with the capital project
12 in that case, and it would only address future ones once
13 you've got your study done? Or would you do something in
14 the interim for that particular case, absent, you know,
15 perfect information from your new study?

16 MS. LYNCH: Our view is that we'll need to complete
17 the study before we're able to -- to determine what the
18 next steps will be.

19 Our intention, as I said, is to initiate it this year,
20 and we'll complete it as soon as we can.

21 MR. NEME: Okay. And any projects that come up in the
22 interim, you'll just not be able to do the IRP kind of
23 work; you'll just have to wait for the projects that come
24 up after the study is completed. I think that is what I
25 heard you saying.

26 MS. LYNCH: We'll look at it as we have been, but on a
27 specific, we'll need to take further consideration of that.

28 MR. NEME: Okay. And one last question related to

1 this one, and this was the part (b) part of our question
2 which we didn't see answered in the Staff 32, but you
3 referred us to as well.

4 What information that you do not currently have would
5 you need in order to develop a preliminary transition plan?
6 Not your final plan, but what are the key pieces of
7 information you don't have that you would need to have in
8 order to develop a preliminary plan?

9 MS. LYNCH: There are a few elements that -- that we
10 would need. I mean, certainly specifically we would -- we
11 would need to understand the load curves for the
12 technologies that -- that we support, specific to peak or
13 instantaneous requirements as opposed to annual
14 requirements as well as what are the -- what are the other
15 requirements around projects? What is the time? Is it --
16 is it of a size that would warrant that -- that type of
17 review?

18 Like, we -- we really need to develop the criteria by
19 which we would be able to -- to assess our ability to -- to
20 utilize DSM and infrastructure planning.

21 MR. NEME: Okay. One last thing related to -- to this
22 question: Have you -- have you had any leave to construct
23 projects come up since the GTA case was completed?

24 MS. LYNCH: Yes.

25 MR. NEME: And in those, did you consider the role
26 that DSM could play in deferral?

27 [Witness panel confers]

28 MS. LYNCH: We haven't explicitly considered it.

1 We've outlined what we have done.

2 MR. NEME: Sorry, what does that mean?

3 MS. LYNCH: So we have outlined what our current
4 approach to DSM is, and how that is captured in our demand
5 forecast. As I said, not specific.

6 MR. NEME: But you haven't considered what role --
7 whether additional geographically-targeted DSM could do in
8 those cases?

9 MS. LYNCH: That's correct.

10 MR. NEME: Okay.

11 MR. POCH: Chris, correct me if I'm wrong, but I think
12 we've dealt with 16 (a), the next one?

13 MR. NEME: Yes.

14 MR. POCH: We're to going to the topic of DSM targets,
15 and it is GEC 24.

16 You were -- we asked you for documentation behind your
17 targets, and you were kind enough to give us some
18 spreadsheet calculations of savings build-up, by sector and
19 measure.

20 What I think we're missing, if it's available, would
21 be to get budget breakdowns in the same way; that is adding
22 per-unit rebates, total rebates per-measure, and non-rebate
23 costs per program, unless that has already been provided
24 elsewhere.

25 [Witness panel confers]

26 MR. DIBAJI: We can provide that by way of an
27 undertaking.

28 MR. MILLAR: JT2.14.

Ontario Energy
Board

Commission de l'énergie
de l'Ontario



EB-2012-0433

IN THE MATTER OF AN APPLICATION BY

UNION GAS LIMITED

LEAVE TO CONSTRUCT THE PARKWAY WEST PROJECT

EB-2013-0074

IN THE MATTER OF AN APPLICATION BY

UNION GAS LIMITED

LEAVE TO CONSTRUCT THE BRANTFORD-KIRK WALL/PARKWAY D PROJECT

EB-2012-0451

IN THE MATTER OF AN APPLICATION BY

ENBRIDGE GAS DISTRIBUTION INC.

LEAVE TO CONSTRUCT THE GTA PROJECT

DECISION AND ORDER

JANUARY 30, 2014

EB-2012-0451
Enbridge Gas Distribution Inc.

EB-2012-0433
EB-2013-0074
Union Gas Limited

Ontario Energy Board

reinforcement projects but stated that its views generally applied to Union as well. However, GEC did not advance specific arguments against the Brantford-Kirkwall/Parkway D Project based on evidence in the proceeding. The issue of DSM as an alternative is discussed later in this decision in the context of the Enbridge application. There was no evidence that DSM measures would obviate the need for the Brantford-Kirkwall/Parkway D Project. GEC's own witness, Mr. Chernick, did not take a position on Union's applications, but indicated that because the projects relate to switching gas supplies the need for the projects would not be affected by load reductions. As he stated in testimony:

"I was asked to look at the feasibility and benefits of avoiding additions through load reductions. And since the justification for Segment A and some of the other facilities had to do with switching gas supplies, it really wouldn't have been affected by load reductions." ⁵

Similarly, the other evidence related to DSM alternatives (Mr. Neme and Mr. Jim Grevatt on behalf of GEC and Mr. Ian Jarvis, Ms. Wen Jie Li and Ms. Gillian Henderson from Enerlife Consulting on behalf of Environmental Defence) related only to the Enbridge application. The Board finds that there is no evidence that DSM measures would provide a superior alternative to the Union project.

COC opposed all of the applications. COC submitted that the applicants have underestimated the risks of diversifying supply with shale gas while overestimating the benefits. COC also took the position that Canadian gas is preferable to a reliance on U.S. sourced gas. However, Ontario is situated within a continental energy market which has developed over a substantial period of time. The integrated nature of the gas market has brought significant cost and reliability benefits to Ontario consumers. Further, the evidence in the proceeding is that shale production is expected to remain strong and there are no regulatory impediments to ongoing production where it is currently taking place. It is the Board's view that while uncertainties exist for all supply sources in terms of future cost and availability, it is widely acknowledged, including by

⁵ Transcript Vol. 7, p. 55-56.

Filed: 2014-12-19
 EB-2014-0261
 Exhibit B.LPMA.4
Page 1 of 2

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Reference: Exhibit A, Tab 8, Schedules 1 & 2

- a) How has the impact of DSM programs been taken into account in forecasting the design day demands for Union South and Union North demands?
- b) Please provide the reduction in design day demands for each of Union South and Union North based on DSM programs for each of the 2015/16 and 2016/17 winters as compared to the previous winter.

Response:

- a) Union has been delivering Demand Side Management ("DSM") programs since the 1990s. Union's DSM programs include:
 - i) Resource acquisition programs that seek to achieve direct, measurable natural gas savings on a customer-by-customer basis;
 - ii) Low-income programming designed to address the specific needs of this customer segment to achieve energy savings; and,
 - iii) Market Transformation programs that seek to make a permanent change in the marketplace to increase the market share for high-efficiency products or services.

DSM programs delivered to General Service and Distribution Contract rate classes across Union's franchise area are primarily focused on reducing customers' annual natural gas consumption requirements. As outlined in its submission to the Board in EB-2014-0134¹, Union plans to study the potential for DSM to avoid or defer infrastructure investment. The results of this study will be presented to the Board and stakeholders within the mid-term review of Union's 2015-2020 DSM Plan. It is premature to consider the impact DSM could have on the design day requirement forecast of any part of Union's system, including the Dawn Parkway System, until the study is complete.

Approximately 70% of the volume transported on the Dawn Parkway system is for ex-franchise customer's transportation contracts. Union's DSM programs have no impact on reducing these ex-franchise volumes.

¹ EB-2014-013, Union Submission on Draft Framework and Guidelines, October 15, 2014, p.28.

Filed: 2014-12-19
EB-2014-0261
Exhibit B.LPMA.4
Page 2 of 2

The design day demands for Union South and Union North take into account existing DSM program volume reduction since the design day demands are based on the previous winter's actual daily measured volumes. Any impact of in place DSM programs will be reflected in the actual daily measured volumes. Company forecasts which include, for example, reduction of contract rate customer's volumes due to known energy efficiency changes, are also included in the calculation of forecast design day demand.

- b) Union does not currently have a method to measure the impact on design day demands attributable to DSM programs.

Filed: 2014-12-12

EB-2014-0182

Exhibit A

Tab 6

Page 8 of 12

1 in Exhibit A, Tab 6, Schedule 2.

2

3 In recent years, the Town of Oakville and City of Burlington have experienced growth in the
4 number of customers requesting natural gas service to their homes or businesses. This growth
5 includes new residential and commercial/industrial customers using natural gas as their primary
6 energy source, existing residential customers converting from other fuels to natural gas, and
7 commercial/industrial businesses converting to natural gas for their energy needs.

8

9 To forecast future design day demand and to identify reinforcement facilities required to support
10 forecast growth in the Burlington Oakville System, Union used growth projections supplied by
11 the Regional Municipality of Halton for the City of Burlington, the Town of Oakville and the
12 southern portion of the Town of Milton. Union's growth forecast includes 20 years of customer
13 attachments (to 2030) using the information provided by the Regional Municipality of Halton.

14 The forecast attachments from 2031 to 2035 were projected by Union using a lower rate than the
15 2016-2030 period mainly due to an expectation of decreased land availability for development
16 and continued natural gas usage efficiency. A summary of the Burlington Oakville System
17 growth forecast can be found in Exhibit A, Tab 6, Schedule 3. With respect to the southern
18 portion of the Town of Milton, growth is expected in the area south of Derry Road and east of
19 James Snow Parkway which will be served from the Burlington Oakville System. The
20 remainder of the Town of Milton growth is expected to be served from the Milton System.

21

22 Union has been delivering Demand Side Management ("DSM") programs since the 1990s.

23 Union's DSM programs include:

- 1 1. Resource acquisition programs that seek to achieve direct, measurable natural gas savings
- 2 on a customer-by-customer basis;
- 3 2. Low-income programming designed to address the specific needs of this customer
- 4 segment to achieve energy savings; and,
- 5 3. Market Transformation programs that seek to make a permanent change in the
- 6 marketplace to increase the market share for high-efficiency products or services.

7

8 DSM programs delivered to General Service and Distribution Contract rate classes across

9 Union's franchise area are primarily focused on reducing customers' annual natural gas

10 consumption requirements. The impact of Union's DSM activity for in-franchise customers is

11 embedded in the design day requirement. As outlined in its submission to the Board in EB-

12 2014-0134⁹, Union plans to study the potential for DSM to avoid or defer infrastructure

13 investment. The results of this study will be presented to the Board and stakeholders within the

14 mid-term review of Union's 2015-2020 DSM Plan. It is premature to consider the impact

15 targeted DSM could have on the design of any part of Union's system, including the Burlington

16 Oakville System, until the study is complete.

17

18 As seen in Exhibit A, Tab 6, Schedule 4, Union forecasts residential customers supplied by the

19 Burlington Oakville System to increase by approximately 50,445 attachments (26,195 Oakville,

20 11,675 Burlington and 12,575 Milton) between 2016 and 2035. Over this same period,

21 commercial customers supplied by the Burlington Oakville System are forecast to increase by

⁹ EB-2014-013, Union Submission on DSM Draft Framework and Guidelines, October 15, 2014, p. 28.

Tab 4



ONTARIO ENERGY BOARD

FILE NO.: **EB-2015-0029** **Union Gas Limited**
 EB-2015-0049 **Enbridge Gas Distribution Inc.**

VOLUME: **9**

DATE: **August 31, 2015**

BEFORE:	Christine Long	Presiding Member
	Allison Duff	Member
	Susan Frank	Member

1 necessary to reach the conclusion that they do, and are
2 simply relying on their client's representations and
3 unspecified past scrutiny by somebody of the utility's
4 computations.

5 Where the utilities have responded to our questions
6 about avoided supply and avoided T&D, and even to a limited
7 extent, errors in their work have been apparent.

8 For example, Enbridge admits that its SENDOUT model
9 was not allowed to reflect the real calculation of costs of
10 GTA segment A, and Union admits that it similarly omitted
11 the Dawn-Parkway transmission from its SENDOUT model runs.

12 Union did provide us with some partial runs of that
13 SENDOUT model, and I discuss on pages 60 and 61 of my
14 evidence that those seem to show that Union assumed that
15 gas saved in the winter saves no gas cost in the winter,
16 and saves no storage cost to get gas from the summer to the
17 winter. So it is quite a mystery as to how they're making
18 the model do what it seems have done.

19 Of course, we can't investigate further because the
20 company will not provide -- has refused to provide any of
21 the backup data, including their instructions to the
22 program on what to assume.

23 In terms of avoided distribution, Enbridge has refused
24 to provide the data they gave Navigant, or Navigant's work
25 papers, let alone a complete list of the distribution
26 projects in the period under consideration, and the
27 justification for those projects.

28 And since Union relies on Enbridge's values,



ONTARIO ENERGY BOARD

FILE NO.: **EB-2015-0029** **Union Gas Limited**
 EB-2015-0049 **Enbridge Gas Distribution Inc.**

VOLUME: **1**

DATE: **August 19, 2015**

BEFORE:	Christine Long	Presiding Member
	Allison Duff	Member
	Susan Frank	Member

1 demand, it stays the same, because it's roughly a pass-
2 through, so in terms of total resource cost, it absolutely
3 is relevant and should be included in the avoided cost, but
4 in terms of rate impacts there really won't be much.

5 MR. POCH: Okay, we'll come back to that too.

6 MS. LONG: Mr. Poch, we are going to break soon --

7 MR. POCH: Sure.

8 MS. LONG: -- so pick a convenient spot in the next --

9 MR. POCH: This is a fine moment, Madam Chair.

10 MS. LONG: -- five minutes. Is that fine? We're
11 going to break, and we'll be back at 11:25. Thank you.

12 --- Recess at 11:00 a.m.

13 --- On resuming at 11:26 a.m.

14 MR. POCH: Thank you, Madam Chair.

15 Mr. Sloan, earlier you said that Union is kind of a
16 special case, and you're referring to the fact that it has
17 what I guess we could call local transmission. That's what
18 you were referring to, I think, and I wanted to ask you a
19 little about that.

20 The costs of local transmission, Dawn to onwards that
21 Union owns, those are recouped in distribution rates; am I
22 correct?

23 MR. SLOAN: I would let one of my Union colleagues
24 comment on that particular question.

25 MR. QUIGLEY: That's correct.

26 MR. POCH: All right. And they're part of the
27 volumetric part of the bill, or part of the fixed charges?

28 MR. SMITH: Madam Chair, in our view, this line of

1 questioning is best directed to the next panel, Mr.
2 Tetreault in particular.

3 MR. POCH: Where do they show up in avoidable costs?

4 MR. SLOAN: Well, they would show up in the T&D
5 component of the TRC test, as we've -- I've discussed in my
6 evidence.

7 MR. POCH: I guess the question is do they show up in
8 the T part or the D part, because you've imported the D
9 part from Enbridge, right?

10 MS. LYNCH: I would just reiterate, Mr. Poch, as we
11 said this morning, that is something that we are intending
12 to study to determine what are the appropriate T&D elements
13 to consider.

14 MR. POCH: Just to be clear on that point, Enbridge,
15 of course -- it would be clear for Enbridge. That would be
16 part of their transmission commodity costs, because they
17 don't own that transmission. So it wouldn't be included in
18 their distribution avoided costs?

19 MR. SLOAN: The portion of the Dawn-Parkway system
20 that Enbridge contracts for would be upstream of their T&D
21 system. Within their T&D system, they have similar types
22 of -- I mean, this is not exactly analogous, but, you know,
23 major parts to their system, as well.

24 MR. POCH: I understand, okay. I think you may have
25 answered this already, but the SENDOUT runs, do they
26 include the costs of this portion of Union's system?

27 MR. QUIGLEY: No, the SENDOUT model doesn't model the
28 transmission or distribution system for Union.