

**EB-2015-0029 / EB-2015-0049 Union Gas Limited and Enbridge Gas Distribution Inc., Decision and Order Dated January 20, 2016, pages 73-75, Section 9.5: Input Assumptions and Net-to-Gross Changes**

**9.5 Input Assumption and Net-to-Gross Changes**

Input assumptions refer to engineering estimates of natural gas savings and the effective useful life of various energy efficiency measures. Net-to-gross (NTG) adjustment factors such as free ridership, spillover, and persistence, are the result of program specific evaluation studies and are applied to all DSM programs to estimate net (final) cumulative natural gas savings. The treatment of input assumptions and NTG factors to evaluate lifetime natural gas savings were discussed extensively during the proceeding.

Input assumptions define all inputs used to evaluate gross cumulative natural gas savings for **prescriptive measures and programs** and are to be updated in the Technical Reference Manual (TRM), which is being developed by the Technical Evaluation Committee (TEC). Updated net-to-gross ratios for DSM projects are subject to the annual evaluation process, including an on-going study by the TEC. **Input assumptions are not used to evaluate gross cumulative natural gas savings for custom programs and measures<sup>6</sup>**, except for effective useful life for measures listed in the annual input assumption filings.

Three options were presented for the treatment of all input assumptions:

1. The DSM Framework dictated that cumulative natural gas savings for a given program year, for the purpose of determining shareholder incentive, should be calculated using the updated input assumptions resulting from the evaluation and audit process of the same program year. This is the same treatment as is used for the calculation of lost revenues.
2. Enbridge agreed with using the updated input assumptions to evaluate program savings for shareholder incentive and lost revenues as dictated by the DSM Framework, but proposed that the targets for that same program year also be revised with the updated input assumptions through a target adjustment factor (TAF).

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<sup>6</sup> Custom measures do not have pre-determined energy savings associated with their implementation, and are more common in industrial and commercial facilities where equipment is more specialized and operational characteristics are more variable. Custom project savings are calculated on a case-by-case basis, although measure life may be assumed based on typical lifetimes of that type of equipment.

3. Union proposed different approaches to determine cumulative natural gas savings for the purpose of calculating lost revenues, shareholder incentives, and inputs for their next year's formulaic targets. For lost revenues and for calculating next year's formulaic targets, cumulative natural gas savings would be evaluated using updated input assumptions as dictated in the DSM Framework. For shareholder incentives, Union proposed that the old input assumptions be used to evaluate cumulative natural gas savings for a given year, and not be updated as a result of the evaluation and audit process which happens the year after. Union proposed to apply any input assumption changes resulting from the Technical Reference Manual (TRM) and the Net-to-Gross (NTG) study to its savings in 2016 on a go-forward basis.

The result of both the Enbridge and Union's proposals are that targets and results would be evaluated using the same input assumptions and adjustment factors. This approach would neutralize the impact of revisions to input assumptions on shareholder incentive so utilities assume no risk if input assumptions were found at some point to be incorrect or outdated.

#### Comments

OEB staff and intervenors generally supported continuing with the treatment proposed in the DSM Framework. Mr. Woolf agreed that there was no major reason to deviate from the OEB's current evaluation policies on the application of input assumptions.

Mr. Neme explained that it may be appropriate to lock in the input assumptions and net- to-gross factors **for prescriptive programs** and not update these values based on evaluation and audit results. On the other hand, Mr. Neme noted that **utilities have more control over the measures installed and free ridership rates in custom programs, where projects are developed on a case-by-case basis.**

#### Decision

The OEB is modifying the treatment of input assumptions and net-to-gross adjustment factors effective 2015. The OEB has considered the evidence and submissions and agrees with expert witness, Mr. Neme, that input assumptions for **prescriptive measures** should not be adjusted retroactively based on the results of the annual evaluation process for the purpose of determining eligible shareholder incentive amounts.

The OEB finds that any updates to existing input assumptions, or new input assumptions identified during a year, should be applied prospectively when evaluating savings from **prescriptive measures.**

The OEB does not expect the gas utilities to rely on predetermined net-to-gross adjustment factors when calculating savings for custom projects.

There are three uses of input assumptions and net-to-gross adjustment factors in the evaluation of savings. The first is the use of input assumptions and net-to-gross adjustment factors to determine final savings results for the purpose of determining shareholder incentives, as just described above. The second is the use of the input assumptions and net-to-gross adjustment factors to calculate the next year's targets. The third is the use of the input assumptions and net-to-gross adjustment factors to calculate lost revenues.

To calculate next year's targets, the OEB directs the utilities to use the new, updated input assumptions and net-to-gross factors that are the result of the annual evaluation process. The OEB finds it appropriate to use the best available information to determine subsequent targets for prescriptive programs.

To calculate lost revenues, the OEB directs the utilities to use the final natural gas savings amounts calculated from the use of the best available information that are the result of the annual evaluation process. It is appropriate to use the best available information when determining lost revenues that are the result of DSM programs as this will provide the best indication of the actual effect of the programs and is needed when comparing this amount with the load reduction amounts included in the gas utilities' load forecast.