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September 24, 2018

VIA RESS, EMAIL and COURIER

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

Dear Ms Walli:

Re: Enbridge Gas Distribution Inc. ("Enbridge")
Ontario Energy Board File Number EB-2017-0127/EB-2017-0128
DSM Mid-Term Review - Submission

In accordance with the Board's Letter dated August 15, 2018 and request from the Board, enclosed please find Enbridge's submission.

This submission has been filed through the Board's Regulatory Electronic Submission System.

Yours truly,

[original signed]

Bonnie Jean Adams
Regulatory Coordinator

cc: Mr. D. O'Leary, Aird & Berlis LLP (via email)
Interested Parties (via email)

DEMAND SIDE MANAGEMENT MID-TERM REVIEW

EB-2017-0127/0128

SUBMISSION FROM ENBRIDGE GAS DISTRIBUTION INC.

September 24th, 2018

Table of Contents

Section 1: Summary of Enbridge Mid-Term Review Recommendations and Requests

1. On the 6th and 7th of September 2018, Enbridge Gas Distribution Inc. ("**Enbridge**" or the "**Company**") attended a Stakeholder Conference as part of the Ontario Energy Board's ("**Board**") Demand Side Management (**DSM**) Mid-Term Review process (EB-2017-0128). The scope of the Stakeholder Conference was limited to the matters identified by the Board as part of its Multi-Year Decision and Order ("**Decision**") dated January 20th, 2016[1] and the Board's Mid-Term Review letter dated June 20th 2017[2] to the natural gas utilities and stakeholders.

2. The Stakeholder Conference provided a forum for meaningful discussion amongst the natural gas utilities and Intervenors regarding the matters identified by the Board. The purpose of this submission is to provide further clarity and detail for the benefit of the Board and Intervenors in respect of several of the Company's requests and recommendations made in the Company's written Mid-Term submissions.[3] Enbridge trusts that through its earlier Submissions and with the further details provided in this submission (like the draft accounting order for the DSMPIDA), Enbridge has demonstrated the need for the requests made and the material negative impact and irreconcilable harm that will befall aspects of its DSM program activities in the event that such requests are not implemented.

Demand Side Management Participant Incentive Deferral Account

3. In the Company's DSM Multi-Year Plan Application (EB-2015-0049) the Company requested that the Board consider and approve a Demand Side Management Participant Incentive Deferral Account (DSMPIDA)[4] as an

[1] Decision and Order (EB-2015-0049/29), Ontario Energy Board, Schedule D
[2] DSM Mid-Term Review (EB-2017-0127/EB-2017-0128), Ontario Energy Board, June 20th 2017
[3] Enbridge Gas Distribution (EB-2017-0127/28) DSM Mid-Term Review Submissions: September 1st, 2017; October 1st, 2017; and January 15th, 2018 ("**Submissions**")
[4] DSM Multi-Year Plan (2015-2020) Application, (EB-2015-0049), Exhibit B, Tab 1, Schedule 6

accounting tool to manage the multi-year customer incentive payouts for multi-year program offers. In its Decision, the Board was silent on the DSMPIDA. Given its importance, the Company is therefore requesting that the Board approve the DSMPIDA for the years 2018 through 2026.

4. The DSMPIDA is simply a necessary accounting mechanism that will hold annual customer incentive payouts until they come due. Due to the multi-year aspect of several of the Company's program offers (i.e. Residential/Commercial Savings by Design and Affordable Housing New Construction[5]) the DSMPIDA would need to remain open until 2026 to accommodate the up to five year window customers have to earn and collect incentives plus one year to clear any residual balance.

5. In the event the Board does not provide approval of a DSMPIDA, the Company will need to promptly revise these three offers to exclude those facets requiring the payment of deferred incentives, including supporting building/homes built and removing the metrics related to these objectives from the current scorecard. This would also necessitate re-weighting the Low Income and Market Transformation scorecards accordingly.

6. See Appendix A for a Draft Accounting Order for the DSMPIDA.

<u>Exempt Offers with Deferred Customer Incentive Payouts from the Target Adjustment Mechanism</u>

7. In the Decision the Board stated it would "reassess the formulaic adjustment mechanisms at the mid-term review[6]" and directed the utilities to "suggest any necessary changes to the approved formulaic targets at the mid-term review, for

[5] Affordable Housing New Construction was previously named Low Income New Construction in (EB-2015-0049)
[6] Decision and Order (EB-2015-0049/29), Ontario Energy Board, p.69

2018 to 2020[7]." The Company has implemented the Target Adjustment Mechanism (TAM) for two consecutive years and found that the mechanism is not appropriate for re-setting targets of program offers with deferred incentive payouts.

8. During the Stakeholder Conference several intervenors asked clarifying questions in respect of the Company's proposed changes to the application of the TAM. To provide further insight into the problem, the Company has prepared an illustrative example to highlight concerns with respect to the TAM.

9. Using the Affordable Housing New Construction offer as an example and case in point, the Company has an approved budget for Year 1 of approx. $1.2M and a target of 8 builders. In Year 2 the approved budget remains approx. $1.2M and the unadjusted target[8] increases to 9. In Year 1 the Company was successful in attracting 11 builders but the cost to deliver the offer was only $500,000 in Year 1 out of the $1.2M approved budget. The reason for this is that in Year 1, incentives payable to Year 1 participants were not yet earned and payable as builders were not yet in a position to claim incentives on new builds.

10. Using the TAM, it appears as though the Company has exceeded its target very cost-effectively by using only $500,000 of the $1.2M budget in Year 1. As a result, the TAM increases the target by an exorbitant amount and is adjusted as follows in Year 2:

Actual Result/Actual Year 1 Budget)*Year 2 Budget * Productivity Factor = Year 2 Target

$$(11/ \$500,000)*(\$1,200,000)*1.02 = 27$$

[7] Decision and Order (EB-2015-0049/29), Ontario Energy Board, p.72
[8] "unadjusted target" represents the original 2018 target proposed by the Company in the DSM Multi-Year Plan (2015-2020) Application, (EB-2015-0049), not adjusted by the TAM

11. The TAM adjusted target of 27 is almost a fourfold increase over Year 1 targets. It is an artificial and unachievable target which bears no relationship with the market potential for the offer nor the Company's results in Year 1. Applying the TAM leads to the misalignment of the interests of Ratepayers and the Company. The Company therefore proposes that program offers with deferred incentive payouts be exempt from the TAM.

12. The program offers the Company is proposing be exempt from the TAM can be found in Appendix A of the January 15th, 2018 submission (EB-2017-0128).

Updates to Residential and Commercial Savings by Design Program Offers

13. In the January 15th, 2018 submission, the Company made several design recommendations to the Savings by Design (SBD) Market Transformation offer based on preliminary feedback from business partners and builders. Specifically, a multi-tiered incentive structure was put forward that reduced the threshold savings efficiency level from 15% over existing code to 10% but with tiered incentives for homes meeting higher levels of energy efficiency, with tiers at 10%, 15% and 20% respectively.

14. Subsequent to the January 15th, 2018 submission, feedback has been that many builders prefer the simplicity of dealing with a one-tiered approach, however a multi-tiered approach is still worthy of future consideration. Therefore, the Company has determined that the multi-tiered incentive is premature for the current framework and should be an item proposed for the post-2020 DSM Framework where a more fulsome review with stakeholders can take place. As a result, the existing single tier achievement of 15% over building code will remain in place for the duration of the current Multi-Year Plan.

15. The Company has adopted an updated eligibility criterion that allows for multiple medium and smaller builders to participate in the program offer under certain

conditions. Medium and small builders were not typically able to meet the offer's previous eligibility criteria. The eligibility criteria have been expanded to include participation by multiple builders constructing in a single development through participating in a joint charrette/IDP. These small and medium size builders will now receive all of the educational benefits provided by the full day IDP, while collectively being counted as one single participant for the purposes of the Company's "Builder" participant metric. In combination, as a single participant, each builder in the group would have equal access, on a first come first serve basis, to incentives on homes built for up to 50 homes in aggregate, consistent with the current program offer parameters.

Update to the direction of the Board to move the Run it Right and CEM offers to the RA Scorecard

16. During the Stakeholder conference, the Company received feedback from some intervenors that the proposed weightings of the Run it Right and CEM offer metrics, originally proposed to be 7.5% each, were too high. The Company appreciates the feedback and is adjusting the proposed weightings for the metrics for each of these program offers to 5%. The updated proposed scorecard is shown in Appendix B.

Other Updates and Requests

17. No additional clarification or follow up is required for the following recommendations, requests, or informational updates made by Enbridge as part of the Mid-Term Review process:
    - Modify Shareholder Incentive formula
    - Apply a consistent Productivity Factor of 2% to all scorecards
    - Apply a fixed net to gross value
    - Adjustment to the respective scorecard weightings for the purposes of calculating Shareholder Incentive

- Continued funding for the Energy Leaders initiative for 2019-2020
- Continued funding for the Energy Literacy offer for 2019-2020
- Proposed options to re-balance the customer incentive budgets and targets for future budget years
- Outline to inform parties that effective 2018 the Company has changed the design of its residential Home Energy Conservation offer in line with the Home Reno Rebate offer delivered by Union Gas.

18. Information and details regarding the above noted recommendations, requests or updates can be found in one of Enbridge's earlier Submissions. Reference to each item can be found in Table 7 in the January 15th, 2018 submission[9].

<u>Section 2: Administration and Overhead Costs</u>

19. To supplement the evidence filed on October 1st, 2017, the Company confirms that the following DSM costs are recovered through distribution rates, outside of DSM administrative and overhead budgets:

- Benefits and STIP for DSM employees
- General use of assets and office space for internal DSM employees
- DSM costs related to internal shared services

[9] EB-2017-0127/EB-2017-0128 DSM Mid-Term Review Submission of Enbridge Gas Distribution Inc., January 15th 2019, Table 7, pg. 77

Appendix A: Demand Side Management Participant Incentive Deferral Account Draft Accounting Order

The purpose of the Demand Side Management Participant Incentive Deferral Account (DSMPIDA) is to hold budgeted DSM amounts for customer incentive payments, included in rates that are to be paid out in future years to DSM multi-year program offer participants. Amounts are to be carried forward up to five years. Any amounts not claimed will be returned to ratepayers in the year following the last potential commitment date for each program offer, or at such other time as directed by the Board. The DSMPIDA will ensure that the Company only recovers, and ratepayers only pay, the incentives that become earned and payable. The criteria and formula used to determine the amount of customer incentives to be recorded in the DSMPIDA, will be in accordance with the methodology established in the DSM Framework and Guidelines proceeding, EB-2014-0134, and Enbridge's 2015-2020 DSM Plan proceeding, EB-2015-0049.

Simple interest is to be calculated on the opening monthly balance of this account using the Board approved EB-2006-0117 interest rate methodology. The balance of this account, together with carrying charges, will be disposed of in a manner to be designated by the Board in a future rate hearing.

<u>Accounting Entries</u>

1. To record and hold DSM customer incentive payments committed to participants:

Debit:	Multi-year program budget	(various accounts)
Credit:	DSMPIDA	(Account 179. XXX)

2. To record DSM customer incentive payments withdrawn from the DSMPIDA once program offer conditions have been satisfied:

Debit:	DSMPIDA	(Account 179. XXX)
Credit:	Multi-year program budget	(various accounts)

3. Interest accrual:

Debit:	Interest expense	(Account 323.000)
Credit:	Interest on DSMPIDA	(Account 179.XXX)

To record simple interest on the opening monthly balance of the DSMIDA using the Board approved EB-2006-0117 interest rate methodology.

Appendix B: Updated Proposed Scorecard

Enbridge Metric Weightings and Targets					
Resource Acquisition Programs	**Proposed Metrics**	**2016 OEB-Approved Metric Weightings**	**2018-2020 Utility-Proposed Metric Weightings**	**2016 OEB-Approved Shareholder Incentive Weighting**	**2018-2020 Utility-Proposed Shareholder Incentive Weighting**
Home Energy Conservation (HEC) Residential Adaptive Thermostats Commercial & Industrial Custom Commercial & Industrial Prescriptive Commercial & Industrial Direct Install Run-it-Right Comprehensive Energy Management (CEM) Energy Leaders	Large Volume Customers Cumulative Natural Gas Savings	40%	37.5%	65%	55%
	Small Volume Customers Cumulative Natural Gas Savings	40%	37.5%		
Home Energy Conservation (HEC)	Residential Deep Savings Participants	20%	15%		
Run-it-Right	Participants	n/a	5%	n/a	
Comprehensive Energy Management (CEM)	Participants	n/a	5%	n/a	
Low-Income Programs					
Home Winterproofing	Single Family Cumulative Natural Gas Savings	45%	45%	23%	25%
Low-Income Multi-Residential	Multi-Residential Cumulative Natural Gas Savings	45%	45%		
Low-Income New Construction	Projects Completed	10%	10%		
Market Transformation & Energy Management Programs					
School Energy Competition	Schools	10%	20%	12%	20%
Residential Savings by Design	Builders	10%	20%		
	Homes Built	15%	20%		
Commercial Savings by Design	New Developments	25%	40%		
Energy Literacy	No metric proposed	0%	0%		
Run-it-Right	Participants	20%	n/a		n/a
Comprehensive Energy Management (CEM)	Participants	20%	n/a		n/a
Revised					