EB-2018-0300
EB-2018-0301

Before the Ontario Energy Board

Union Gas Limited (now operating as Enbridge Gas Inc.)
Application to dispose of balances in certain deferral and variance accounts related to the delivery of conservation programs in 2016

- and -

Enbridge Gas Distribution Inc. (now operating as Enbridge Gas Inc.)
Application to dispose of balances in certain deferral and variance accounts related to the delivery of conservation programs in 2016

2016 DSM CLEARANCES

GEC ARGUMENT

Introduction

There are a number of issues raised by Enbridge and/or Union (or "the Companies") in their respective applications for 2016 DSM clearances. GEC's submission focuses on one major issue raised in both utilities' applications: whether it is appropriate to adjust the savings target for the Companies' custom commercial and industrial efficiency program so that both (1) the target and (2) the calculation of actual savings achieved and compared to the target, are based on the same net-to-gross (NTG) assumption. As noted in the utilities' applications, because the answer to this question affects how well the utilities DSM programs performed relative to goals, it has significant implications for the amount of shareholder incentive the utilities earned for their 2016 DSM performance.

As the utilities' applications make clear, different parties – particularly Board Staff and the utilities to this point, but others as well – have articulated very different views of the Board's guidance on this issue. Based on its interpretation of Board rulings, Board Staff instructed the Evaluation Contractor (EC) to use the 2015 NTG study results to estimate actual 2016 Custom C&I programs savings, but to *not* adjust the Companies' 2016 savings targets to reflect the impact of that lower NTG. The utilities agree that the 2015 NTG study results should be used to estimate actual 2016 program savings, but unlike Staff they suggest the 2015 NTG study should also be used to adjust the 2016 savings targets. The Companies provide numerous references to, and/or citations from, the Board's guidance in its Filing Guidelines, Decision and Revised Decision on the Companies' 2015-2020 DSM Plans, and 2015 Clearance Decisions which they claim support their interpretation that their savings goals should be adjusted down to be commensurate with the same NTG estimates used to calculate actual savings.

In addressing this dispute there are two competing matters the Board should consider. First, what is a reasonable interpretation of the Board's intent in its prior directions? If the Board is of the view that the earlier intent is clear, that will be determinative for purposes of the 2016 clearance. However, if the Board finds that there is ambiguity, we submit that the Board should indicate its view on a second matter: the appropriate rule to be utilized to encourage real savings achievement by the avoidance of free riders where possible.

GEC is primarily interested in that second consideration as our concern is the encouraging of real savings. That concern aligns with the interest of ratepayers – because energy efficiency is economically and environmentally optimal and misdirected DSM dollars can mean lost opportunities to address the energy efficiency potential possible when capital stock turns over,[1] and because free ridership that could be avoided is a waste of ratepayer dollars. Accordingly, GEC submits that the *policy objective* which should guide the Board is to encourage real savings and the avoidance of free ridership.[2]

[1] This is especially important in the context of fixed annual DSM budgets.

[2] Note that some level of free ridership is inevitable for most efficiency programs. We also note that it is possible to reduce free ridership in ways that also reduce cost-effective savings from non-free riders. One extreme example would be delivering efficiency programs only to very low income customers. Thus, when we suggest reducing free ridership or addressing avoidable free ridership, that is short-hand for optimizing programs to deliver the greatest amount of real net savings per dollar spent (within the context of other policy objectives such as addressing low income needs, ensuring a broad enough program portfolio to offer the opportunity to participate to the vast majority of customers, promoting long-term market transformation, etc.). We also appreciate that NTG is the combined effect of free ridership (account for which reduces savings) and spillover (which increases savings). Thus, when we suggest a policy goal of optimizing free ridership to maximize savings per efficiency program dollar, that is really short-hand for optimizing NTG.

Interpreting Past Board Guidance

As noted above, GEC intends to largely leave the question of interpretation of the Board's past guidance to other parties and of course, to the Board itself. However, we do want to raise a potentially important issue on that question.

Specifically, if it was the Board's intention that savings targets be adjusted retrospectively to account for new information regarding Custom C&I program NTG estimates, it should have documented the methodology by which performance metrics would be adjusted retrospectively, in order to make transparent and eliminate potential debate in Clearance cases over how a change in NTG assumptions would result in changes in those metrics. For example, in the state of Illinois, where gas savings goals established for a multi-year planning period are adjusted before the beginning of each new year to reflect the latest changes to prescriptive measure savings assumptions, the Illinois Commerce Commission requires the gas utilities to file Excel spreadsheets that transparently document how such measure savings assumptions will change goals.[3]

The OEB did not establish an analogous methodology and/or filing requirement for the Ontario gas utilities. As a result, as part of its 2016 Clearance application, Enbridge had to develop and apply its own "methodology" for estimating how its performance metrics would be reduced to be consistent with the 2015 Custom C&I NTG evaluations. The Company's explanation of this need in its application is as follows:

> "In order to adjust 2016 targets to incorporate the findings from the 2015 Annual Verification (i.e., free ridership and spillover values) Enbridge developed a methodology to apply an appropriate weighted 2015 NTG adjustment factor to the 2016 target. This action was required as the 2015 and 2016 program scorecards and targets assigned to the Commercial and Industrial program offerings are not apples-to-apples. Specifically, Enbridge's 2015 Commercial and Industrial program targets are captured in a single metric for Resource Acquisition volumes which also includes residential target volumes. For the 2016 program year, the Board approved a scorecard with metric weightings and targets for the Commercial, Industrial and Residential offerings split out between Large Volume and Small Volume gas savings target."[4]

---

[3] See the Adjustable Savings Goals Section (6.2) of the Illinois Energy Efficiency Policy Manual, Version 1.1 (http://ilsagfiles.org/SAG_files/Subcommittees/IL_EE_Policy_Manual_Subcommittee/2017_Revision/IL_EE_Policy_Manual_Version_1.1_5-5-17_FINAL.pdf). As an aside, Illinois allows for gas savings goals to be adjusted to reflect changes in NTG assumptions for all programs, but only at the beginning of a multi-year plan (the current plans cover the four years from 2018 through 2021) and not in the middle of the plan cycle.

[4] EB-2018-0301, Exh. B, Tab 1, Sch. 1 pp. 9-10.

The Company further explains in an interrogatory response that its need to perform a series of calculations was "a result of a number of differences between the 2015 and 2016 Resource Acquisition program scorecards", specifically that its 2016 Resource Acquisition scorecard had separate performance metrics for large and small customers whereas its 2015 scorecard combined the impacts of all customers together.[5] In short, the Company had to develop a methodology for allocating the effect of different Custom C&I Program and a different Run-it-Right Program NTGs to its "Large Volume" and "Small Volume" savings targets.

The fact that the Board did not document or direct the company to document a methodology for retrospectively adjusting performance metrics to reflect new Custom C&I Program NTG estimates – particularly since the Board was well aware of the differences in 2015 and 2016 scorecards – could be interpreted as indicative of a Board assumption such retrospective adjustments to goals are not appropriate. However, if that was not the Board's intent, and the omission of any guidance on methodology for making such an adjustment was simply an oversight, it will be important that the Board make clear in this case whether the methodology used by Enbridge is reasonable, not only for 2016, but for future years as well.

Supporting Policy Objectives

The Difference between Custom and Prescriptive Programs

The OEB's Decisions on the 2015 DSM Deferrals and Variance Account Applications noted:

> Several parties argued that the manner to calculate program results for prescriptive and custom programs should be treated differently. Prescriptive programs are to use the net-to-gross values, namely free ridership and spillover values that are known at the start of the program year to calculate the program results. However, for custom programs, the result of the most recent program evaluation, including all updates to net-to-gross values, are to be used to derive custom program results. LPMA and SEC emphasized the benefits of using measured results versus historical assumptions to assess DSM achievements and indicated that prior OEB decisions supported this approach for custom projects. The OEB agrees with this interpretation of the OEB's 2015-2020 DSM Decision for future years but not for 2015. (EB-2017-0324, p. 6)

GEC contends that the underlying reason for treating the calculation of actual prescriptive program savings differently than for actual custom program savings – including NTG estimates – is vitally important. In a nutshell, once a utility launches a prescriptive rebate program, particularly one marketed primarily through trade allies such as HVAC contractors, its ability to affect the portion of program participants that that will be free riders is somewhat limited (other than through fundamental changes in program design). In contrast, because custom

[5] Exhibit C.GEC.EGD.2B

programs, almost by definition, involve one-on-one engagement between the utilities and individual customers about individual projects, utilities have a much greater ability to (1) identify projects that are likely to be free riders (and to screen them out of the program, either through program design or other means); and (2) to identify projects that are unlikely to be free riders and to more aggressively promote those. Indeed, Enbridge itself states, in response to an SEC interrogatory, that it attempts to reduce free ridership in its Custom C&I program through its ability to directly engage with prospective participants (e.g. providing facility walk throughs to identify savings opportunities and ensuring the applicant "is engaged with Enbridge prior to the decision being made to implement an energy efficient measure or practice.").[6]

To be clear, GEC is not suggesting that the utilities can always discern whether a proposed custom project is likely to be a free rider, especially if the project is originated by a trade ally who is "selling" a utility's custom program to the customer. However, it is clear that they have much more insight into potential free ridership and could tailor both customer outreach efforts and program design to minimize it. By requiring the use of best available estimates of Custom C&I program NTG values when computing actual savings achieved, the Board has effectively created an incentive to use the inherent discretion that the utilities have in the design and delivery of their Custom C&I programs to maximize *net* (non-free rider) savings per dollar spent. Indeed, GEC contends that is ultimately the only reason for making the distinction the Board made between treatment of NTG assumptions for prescriptive programs and custom programs.

Implication of the Ability to Identify Likely Custom Free Riders

If it is determined that utilities have more control over whether custom projects are free riders, and it is also determined that such control is the underlying rationale for the Board's guidance to use best available estimates of NTG values when computing actual savings achieved by Custom C&I programs, then – solely from a policy perspective (i.e. putting aside semantic interpretations of past Board guidance or decision) – it is hard to see why it would be appropriate to retroactively adjust goals. Indeed, such retroactive adjustments have the effect of undoing any incentive the utilities have been given (by being required to use best estimates of NTG to compute actual savings) to try to minimize free ridership in program design and delivery.

Further, while we do not want to suggest that the utilities have not made a sincere effort to pursue DSM, it would be naïve to ignore the fact that the utilities have a long-term interest in capital expansion of their systems, and that the utilities are owned by a company which is predominantly focused on pipelines and the sale of gas. Accordingly, the optimal result for the utility shareholder is to reap DSM shareholder incentives for non-incremental energy efficiency – i.e. for free riders. This concern is amplified by the reality that program delivery staff will

[6] Exhibit C.SEC.EGD.15.

likely want to please their customers and show high nominal results to their managers by treating free riders as both customer incentive eligible and shareholder incentive producing customers. Thus the Board must guard against the chasing of free riders.

Time Lag: A Partial Mitigating Factor

As noted above, though the utilities should have much greater insight into whether proposed Custom C&I projects are likely to be free riders than into whether prescriptive rebate applications are likely to be free riders, that insight has limitations and cannot be perfect. It will often depend, at least in part, on the level of interaction between the utility and the customer, which can itself vary considerably from project to project. Similarly, though utilities have much more control over free ridership of Custom C&I programs than of prescriptive programs, that control is not absolute. Thus, while the very nature of custom programs should allow the utilities to make a number of decisions to reduce actual free ridership (per dollar of program spending), their ability to optimize custom program design and delivery to minimize free ridership is affected by when they receive feedback from NTG evaluations. For example, if feedback is provided within the first quarter or two immediately following the program year being evaluated, the utility will be able to start adjusting its custom program delivery strategy – at least to some extent – in the year following the evaluated year and even more so in subsequent years.[7]

Unfortunately, the final 2015 NTG study results were not available until late 2017, so the utilities did not have the ability to use the results and lessons learned to adjust 2016 program delivery and limited ability to adjust 2017 program delivery. Again, it is GEC's view that the utilities have significant inherent control over Custom C&I program free ridership and do not need evaluation results to exercise that control. However, because they do not have complete, let alone perfect insight to potential free ridership for all custom projects, it is not unreasonable to suggest that there is some unfairness (not complete unfairness, but some unfairness) in comparing 2016 actuals computed with the 2015 NTG estimates to 2016 goals developed with much older and higher NTG estimates.

Conclusion

As a matter of public policy, for the reasons stated above, GEC contends that actual Custom C&I programs savings should be based on best estimates of both gross savings estimates and NTG

[7] While it is true that most Custom C&I projects are completed in the fourth quarter of any given program year, it is also true that many of those projects would have been initiated before the mid-point of the year in which they are completed (and often initiated in previous years). The farther into the development of a project the utility and its customer are, the more limited the ability of the utility to change the project and/or what it is offering to the customer.

estimates, whether or not those estimates happen to be the same as the estimates that were used to develop savings goals or performance metrics. *In other words, savings goals should not be adjusted retroactively* to be consistent with the assumptions used to estimate actual savings for custom programs.

That said, we recognize that there is a dispute about the correct interpretation of the Board's past guidance on this issue. We leave it to the Board to determine whether the companies' interpretation, which would conflict with the policy driven approach we suggest, is appropriate. Similarly, we also leave it to the Board to determine whether the timing of completion of the 2015 NTG study should have any bearing on the calculation of the utilities' performance incentives.

Whatever the Board determines in the instant case, we strongly urge the Board to insist upon an approach going forward that incents real results by the reduction of free ridership. That suggests that the Board should favour adjusting estimates of actual Custom program savings based on the best available information (for both gross and net savings) but not adjusting performance targets. If evaluation of NTG can be done routinely and be accelerated this should not create undue risk for the utilities.

Finally, we take this opportunity to commend the suggestion made in early correspondence to the Board from Environmental Defence suggesting that planning for the next DSM multi-year period start soon. That would allow for complex issues such as this to be addressed and for ample time to plan and institute changes to budgets and programs to reflect the government policy of escalated utility conservation efforts.

All of which is respectfully submitted this 5th day of March, 2019

David Poch
Counsel to GEC